

# MANUFACTURING LOSES MOMENTUM IN JUNE

**Australian PMI®**  
 Jun 2015: 44.2 ↓

**US Flash PMI**  
 Jun 2015: 53.4 ↓

**Markit Eurozone PMI**  
 Jun 2015: 52.5 ↑

**UK CIPS PMI**  
 May 2015: 52.0 ↑

**Japan Flash PMI**  
 Jun 2015: 49.9 ↓

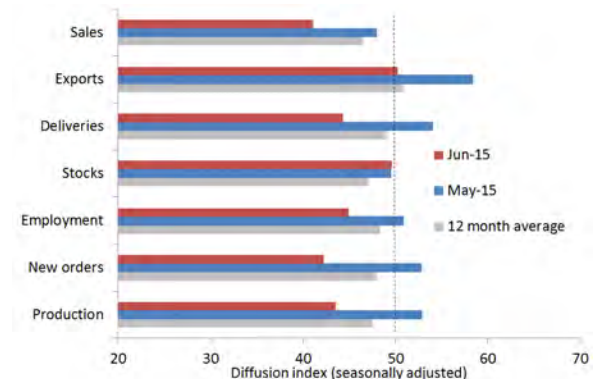
**China Flash PMI**  
 Jun 2015: 49.6 ↑

**KEY FINDINGS**

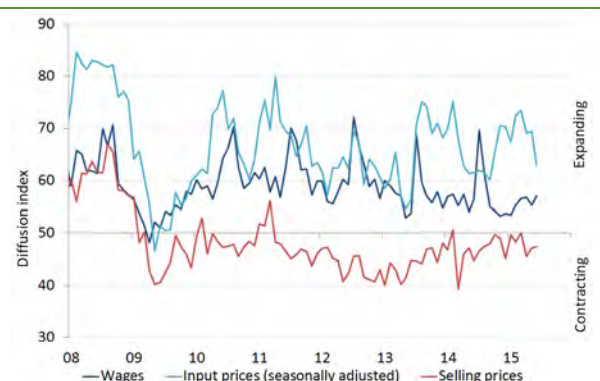
- Activity across the manufacturing industry fell sharply in June, following a brief expansion in May. The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) dropped by 8.1 points to 44.2 points this month (readings above 50 points indicate expansion), the lowest reading since July 2013 (seasonally adjusted).
- The **Australian PMI®** typically 'leads' ABS data for manufacturing output by around 3 months. Recent results from the **Australian PMI®** suggest output growth in manufacturing (measured as 'value added' by the ABS) is likely to have been flat in Q2 2015, after achieving small recoveries in industry-wide output in Q4 of 2014 and Q1 of 2015.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in June: food and beverages (for a 13<sup>th</sup> month); wood and paper (for a fourth month); textiles, clothing, footwear, furniture and other manufacturing; and printing and recorded media.
- Of the seven activity sub-indexes in the **Australian PMI®**, only manufacturing exports expanded (readings above 50 points) in June, albeit at a very mild pace and largely concentrated in food and beverages exports.
- In contrast, manufacturing new orders, production, employment and supplier deliveries all contracted in June after a brief expansion in May. Manufacturing sales declined for a 13<sup>th</sup> month in June, signalling continued weakness in local demand. More positively, manufacturing stock levels have been broadly stable over the past two months.
- Manufacturing respondents indicated that local demand remained weak in June, despite increased residential construction activity and very low interest rates. Respondents reported that the progressive closure of local automotive assembly, which has been underway for some time, is now having a greater effect on downstream demand. Subdued consumer and business confidence, further declines in mining and other business investment in machinery and equipment, and a slow economic outlook, also continue to weigh on local demand.


**ACTIVITY SUB-INDEXES**

- Manufacturing exports were the brightest spot this month, with another reading above 50 points indicating net expansion in June. This was the second consecutive month of expansion and indicated expansion in five out of six months so far this year. However, the exports sub-index dropped by 8.1 points to 50.3 points in June, signaling a milder rate of expansion. Exports remain strongest in the food and beverages sub-sector.
- The new orders sub-index in the **Australian PMI®** dropped by 10.6 points to 42.2 points (i.e. contraction) in June, following a brief expansion in May. This was its lowest level since April 2014. Manufacturing sales contracted at a faster pace and for the 13<sup>th</sup> consecutive month, with the sales sub-index down 6.9 points to 41.1 points, its lowest level since July 2013.
- The production sub-index also returned to contraction after a short expansion in May, falling by 9.3 points to 43.5 points, its lowest level since September 2014.
- Supplier deliveries decreased by 9.7 points to 44.3 points in June, following a brief expansion in May. Manufacturing stock levels were broadly stable this month, with the stock (or inventories) sub-index almost unchanged, at 49.6 points (up 0.1 points).
- Manufacturing employment also contracted in June after expanding briefly May, with the employment sub-index declining by 5.9 points to 44.9 points this month.
- Manufacturers' capacity utilisation rate decreased by 1.5 percentage points, with an average of 70.8% of total capacity being utilised by manufacturers in June. This was well below the average capacity utilisation rate of 71.5% over the past 12 months.

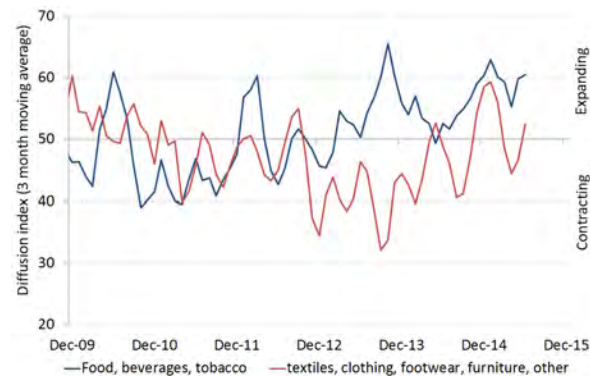

**WAGES AND PRICES SUB-INDEXES**

- The input prices sub-index of the **Australian PMI®** eased by 6.5 points to 62.9 points in June. This followed a period of elevated growth in input prices between October 2014 and May 2015, reflecting accelerated price growth for imported inputs due to the lower dollar.
- The wages sub-index increased by 1.8 points to 57.1 points in June. This suggests that annual manufacturing wages growth is likely to have remained contained in Q2, following a 2.6% p.a. increase in Q1 2015 (ABS wage index data). Slow wage growth reflects ongoing declines in manufacturing employment (down another 1.0% p.a. in May according to the latest ABS data), as well as a relatively high national unemployment rate (6.0% in May).
- Manufacturing selling prices sub-index was little changed, at 47.4 points (up 0.3 points) in June. Selling prices contracted for a third month in June, after a brief stabilisation in March. This contraction in selling prices indicates ongoing margin pressures for manufacturers.



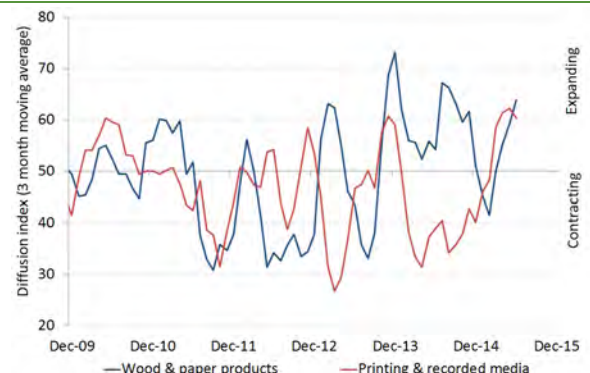
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The **food, beverages and tobacco sub-sector's** index increased by 0.7 points to 60.5 points in June (three-month moving averages), signalling a 13<sup>th</sup> month of expansion. Food and beverages exports continue to benefit from a lower Australian dollar, while local demand remains solid. This sub-sector is the single largest manufacturer, accounting for around 25% of all output and employment. It has recorded the strongest and most consistent growth trend among all manufacturing sub-sectors since 2013.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector's** index increased by 5.8 points to 52.5 points this month (three-month moving averages), after three months of contraction. A lower Australian dollar and very low interest rates have boosted demand for Australian-made clothing, furniture and personal products, but subdued consumer confidence and spending, combined with fierce import competition, continue to weigh heavily on local manufacturing activity.



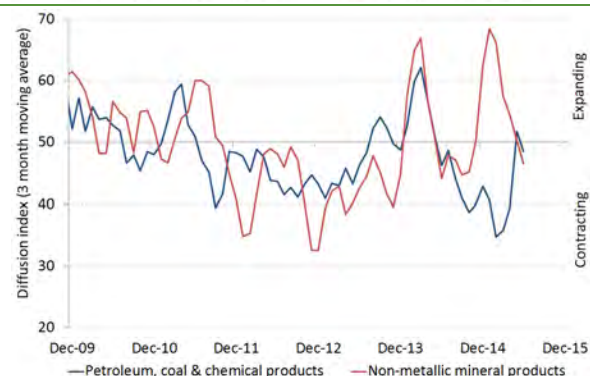
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- Activity in the relatively small **wood and paper products sub-sector** expanded for a fourth month in June. The sub-sector's index increased again by 4.5 points to 63.8 points (three-month moving averages). Demand for wood-based building products and paper-based packaging products continue to benefit respectively from stronger residential building activity and further growth in food and beverages production.
- The very small **printing and recorded media sub-sector** has expanded in recent months, following 14 months of contraction between December 2013 and February 2015. Despite recent improvement in conditions, rapid technology changes, soft business activity and intense import competition continue to bite into demand for locally printed products and recorded media.



## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index decreased by 3.4 points to 48.4 points in June (three-month moving averages), after a brief expansion in May. Respondents reported reduced demand for Australian-made chemical inputs and components, due to the progressive closure of automotive assembly, the decline in new mining investment, and general weakness in local business conditions. More positively, a lower Australian dollar and stronger residential building activity are providing a small boost to some of the more specialised segments of chemicals production in 2015.
- The **non-metallic mineral products sub-sector's** index decreased by 3.6 points to 46.6 points (three-month moving average) in June, ending seven months of expansion. Despite this easing in trading conditions in June, locally made building materials such as tiles, bricks, cement and glass are generally benefiting from stronger residential building activity and a lower Australian dollar in 2015.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products sub-sector's** index decreased by 0.8 points to 39.6 points in June (three-month moving averages), the lowest level since April 2014. This sub-sector has been in contraction since September 2010.
- The index for the closely related **machinery and equipment sub-sector** declined by 2.0 points to 41.1 points this month (three-month moving averages), the lowest level since September 2013. This sub-sector has contracted every month since February 2012 (three month moving averages). This sub-sector includes automotive, other transport equipment, mining equipment, agricultural, industrial and other specialist machinery.
- Respondents across the **metal products and machinery and equipment sub-sectors** continue to raise concerns about weak local demand. The progressive closure of Australian automotive assembly has been underway for some time, but respondents indicated this is now being felt more keenly throughout the relevant sectors. Outside the auto supply chain, poor consumer and business confidence, weak business investment (including declining mining investment) are dragging on sales for locally made machinery and equipment.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	44.2	-8.1	48.0	Exports	50.3	-8.1	50.8
Production	43.5	-9.3	47.5	Sales	41.1	-6.9	46.5
New Orders	42.2	-10.6	48.0	Input Prices	62.9	-6.5	67.0
Employment	44.9	-5.9	48.3	Selling Prices (unadj.)	47.4	0.3	47.9
Inventories (stocks)	49.6	0.1	47.1	Average Wages (unadj.)	57.1	1.8	56.8
Supplier Deliveries	44.3	-9.7	49.0	Cap. Utilisation (%)(unadj.)	70.8	-1.5	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>.

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