

MANUFACTURING STABILISES IN JULY

Australian PMI®
Jul 2015: 50.4 ↑

US Flash PMI
Jul 2015: 53.8 ↑

Markit Eurozone PMI
Jul 2015: 52.5 ↓

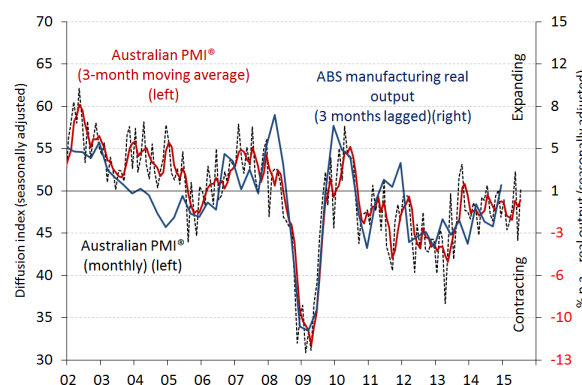
UK CIPS PMI
Jun 2015: 51.4 ↓

Japan Flash PMI
Jul 2015: 51.4 ↑

China Flash PMI
Jul 2015: 48.2 ↓

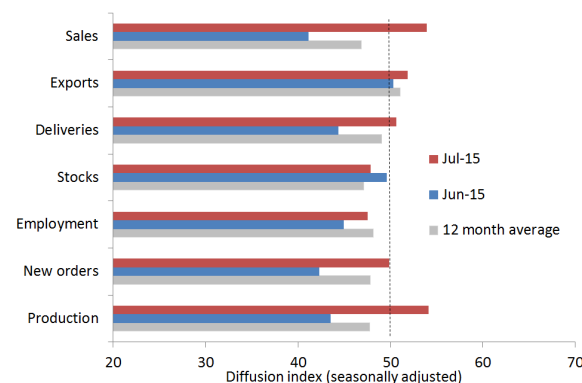
KEY FINDINGS

- Activity across the manufacturing industry stabilised in July, after contracting in June. The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) recovered by 6.2 points to 50.4 points, indicating conditions across the industry were broadly stable (readings above 50 points indicate expansion) (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 recent months, after achieving small recoveries in industry-wide output in the six months to March 2015.
- Three of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in July: food and beverages (for a 14th month); wood and paper (for a fifth month); and petroleum, coal, chemicals and rubber products.
- Four of the seven activity sub-indexes in the **Australian PMI®** expanded in July. Manufacturing sales expanded for the first time in 14 months, while production and supplier deliveries both returned to expansion in July after contracting in June. However, stock levels contracted for a sixth month and employment fell for a second month.
- More positively, manufacturing exports expanded for a third month in July and for the sixth month so far this year, reflecting the lower Australian dollar.
- Australian PMI®** respondents' comments highlight stronger local demand flowing through from increased residential construction activity and continued strength in demand for food and beverages. Elsewhere however, weak consumer and business confidence, the progressive closure of local automotive assembly, and further declines in mining and other business investment in machinery and equipment continue to drag down local demand.



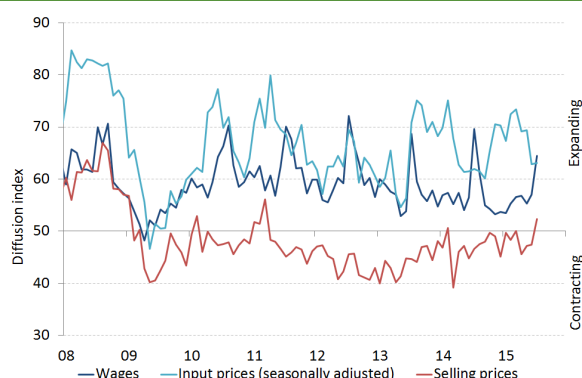
ACTIVITY SUB-INDEXES

- Manufacturing sales expanded for the first time since May 2014, with the sales sub-index rising by 12.9 points to 53.9 points in July.
- The new orders sub-index in the **Australian PMI®** was stable this month, up by 7.6 points to 49.8 points. This followed a 10.6-point drop in June.
- Reflecting the recovery in sales conditions this month, the production sub-index rose by 10.6 points to 54.2 points in July, signalling an expansion after a contraction last month.
- Manufacturing supplier deliveries also expanded in July, increasing by 6.3 points to 50.6 points this month. However, manufacturers continued to reduce their stock levels for a sixth consecutive month, with the sub-index down by 1.7 points to 47.9 points in July.
- The manufacturing exports sub-index remained above 50.0 points in July, increasing by 1.6 points to 51.8 points this month. This was the third consecutive month of expansion in exports. This sub-index has indicated growth in six out of seven months so far in 2015. Exports remain strongest in the food and beverages sub-sector.
- Manufacturing employment contracted for a second month in July after a mild expansion in May. The employment sub-index increased by 2.6 points to 47.5 points this month.
- Manufacturers' capacity utilisation rate was almost unchanged, with an average of 70.7% of total capacity being utilised by manufacturers in July. It remains below the average capacity utilisation rate of 71.6% over the past 12 months.



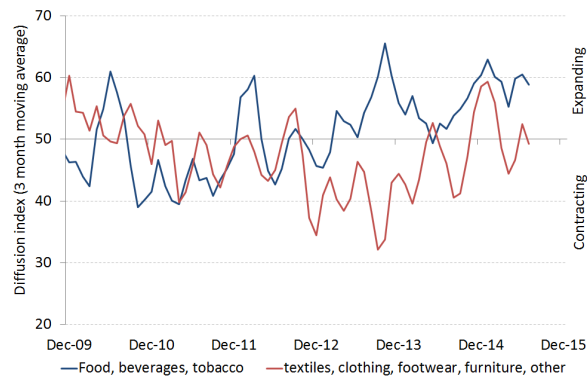
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** was unchanged in July, at 63.1 points (up 0.2 points). This followed a period of elevated growth in input prices between October 2014 and May 2015, as the lower Australian dollar raised prices for imported inputs.
- The wages sub-index rose by 7.4 points to 64.5 points this month, reflecting the 2.5% increase in the national minimum and award wage rates effective from 1 July. Annual manufacturing wages growth is likely to have remained contained over the past four months, 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), a relatively high national unemployment rate (6.0% in June), and very low background inflation (1.5% p.a. in June).
- The manufacturing selling prices sub-index rose by 4.9 points to 52.3 points (i.e. expansion) in July. This followed three months of contraction in selling prices and only made a small inroad into the intense downward pricing pressures flowing from generally weak local demand.



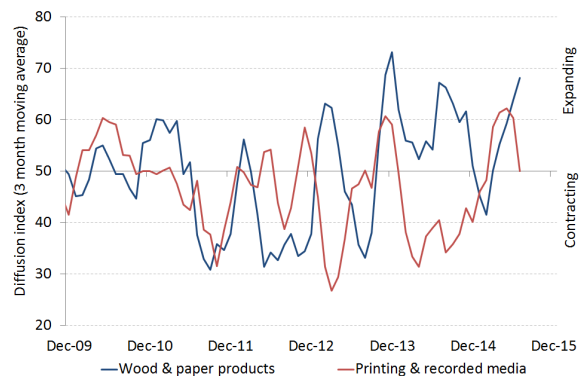
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index decreased by 1.7 points to 58.9 points in July (three-month moving averages), signalling a 14th month of expansion. Local demand remains strong while a lower Australian dollar continues to benefit food and beverages exports. Food and beverages is the single largest manufacturing sub-sector, accounting for around a quarter of all output and employment. It has recorded the strongest and most consistent growth trend among all manufacturing sub-sectors since 2013.
- The small and very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector's** index decreased by 3.2 points to 49.3 points in July (three-month moving averages). This followed a brief expansion in June. A lower Australian dollar and very low interest rates continue to support demand for Australian-made clothing, furniture and personal products. However, weak consumer confidence and spending, and ongoing fierce import competition, continue to weigh heavily on local manufacturing activity.



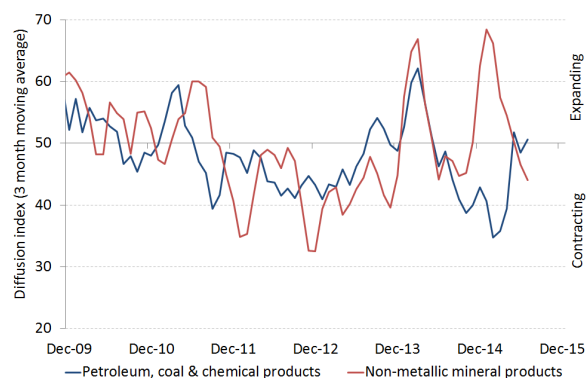
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for a fifth month in July. The sub-sector's index increased by another 4.4 points to 68.2 points (three-month moving averages), the fastest pace of expansion since December 2013. Ongoing strength in residential construction activity and growth in food and beverages production continue to underpin demand for wood-based building products and paper-based packaging products.
- Activity in the very small **printing and recorded media sub-sector** was stable at 50 points in July, following four months of expansion. The sub-sector is benefiting from a lower Australian dollar, but rapid technology changes, soft business activity and intense import competition continue to weigh on demand for locally printed products and recorded media. Respondents from this sub-sector are reporting ongoing redundancies, business closures and restructuring within the sub-sector.



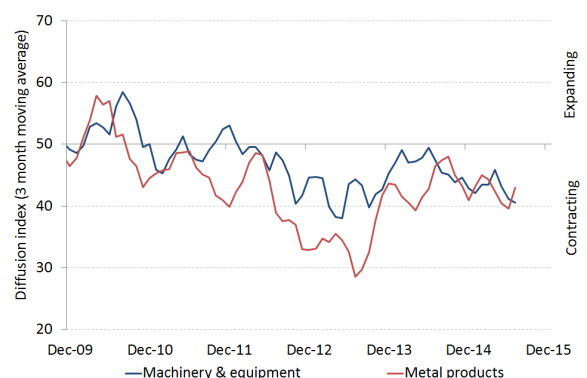
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** returned to expansion in July, with the sub-sector index increased by 2.2 points to 50.7 points (three-month moving averages), after a brief contraction in June. A lower Australian dollar and higher residential building activity are supporting some building-related segments of chemicals production in 2015. Pharmaceuticals and related medical and healthcare products are also said to be expanding. However, the progressive closure of automotive assembly, the decline in new mining investment, and general weakness in local business conditions means overall demand for Australian-made specialty chemical inputs and components remain weak.
- The **non-metallic mineral products sub-sector's** index decreased further by 2.5 points to 44.0 points (three-month moving average) in July, signalling a second month of contraction after strong expansion in the previous seven months. Despite this easing in conditions over the past two months, locally made building materials such as tiles, bricks, cement and glass are generally benefiting from stronger residential building activity and the lower dollar.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index increased by 3.3 points to 43.0 points in July (three-month moving averages). This sub-sector has contracted continuously since September 2010.
- The index for the closely related **machinery and equipment sub-sector** declined by a further 0.6 points to 40.5 points this month (three-month moving averages). This sub-sector has been in contraction since February 2012 (three month moving averages). It includes automotive, other transport equipment, mining equipment, agricultural, industrial and other specialist machinery.
- Feedback across the **metal products and machinery and equipment** sub-sectors continues to indicate very weak local demand. Despite the benefits a lower Australian dollar, import competition remains intense. The progressive closure of Australian automotive assembly, poor consumer and business confidence and weak business investment (including declining mining investment) are still weighing heavily on sales for locally made machinery and equipment. Lower commodity prices are also placing further downward pressure on the pricing of metals-based 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®	50.4	6.2	48.0	Exports	51.8	1.6	51.1
Production	54.2	10.6	47.8	Sales	53.9	12.9	46.9
New Orders	49.8	7.6	47.8	Input Prices	63.1	0.2	67.1
Employment	47.5	2.6	48.1	Selling Prices (unadj.)	52.3	4.9	48.3
Inventories (stocks)	47.9	-1.7	47.1	Average Wages (unadj.)	64.5	7.4	56.4
Supplier Deliveries	50.6	6.3	49.0	Cap. Utilisation (%) (unadj.)	70.7	-0.1	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. 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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