

MANUFACTURING LIFTS FURTHER AS DOLLAR FALLS

Australian PMI®
 Sep 2015: 52.1 ↑

US Flash PMI
 Sep 2015: 53.0 -

Markit Eurozone PMI
 Aug 2015: 52.3 ↓

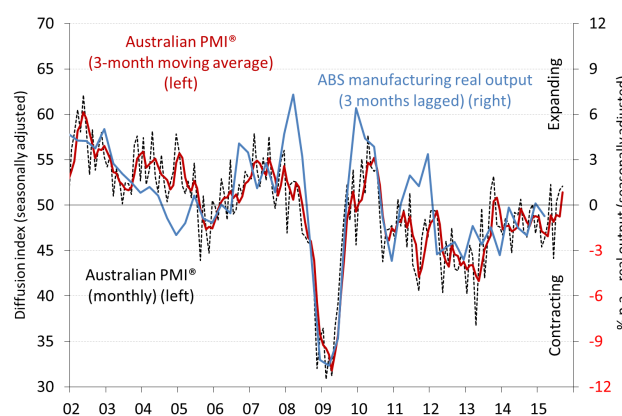
UK CIPS PMI
 Aug 2015: 51.5 ↓

Japan Flash PMI
 Sep 2015: 50.9 ↓

China Flash PMI
 Sep 2015: 47.0 ↓

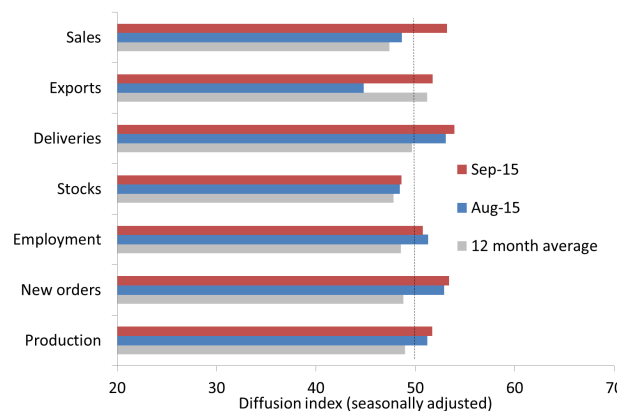
KEY FINDINGS

- The manufacturing industry expanded for a third consecutive month in September, with the Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increasing by 0.4 points to 52.1 points. This indicated a slightly faster pace of expansion (readings above 50 points indicate expansion) (seasonally adjusted).
- This was the strongest reading for the **Australian PMI®** since May 2015 (52.3 points) and the first run of three consecutive months of expansion since July 2010. Four of the past five months have now seen **Australian PMI®** results of above 50 points (indicating expansion).
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in September, as did six of the seven activity indexes. Only stocks (inventories) declined.
- Manufacturing employment stabilised this month, with the sub-index at 50.7 points.
- The key reasons cited by respondents to the **Australian PMI®** for improving conditions in September were stronger local orders and exports, due to the lower Australian dollar. Increased residential construction is also strengthening demand for building materials and related housing products. Reduced orders from local automotive assemblers, mining and heavy engineering projects continue to take their toll on metal products and machinery.



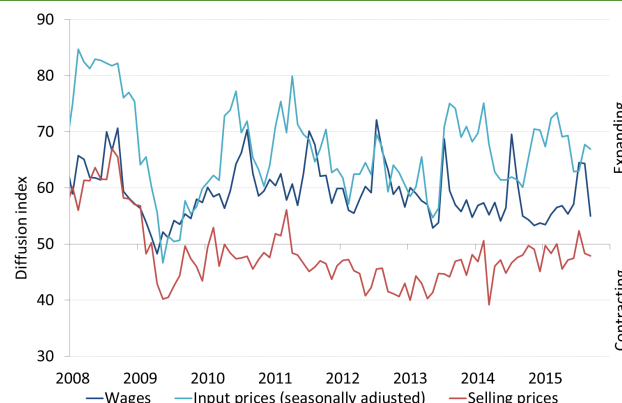
ACTIVITY SUB-INDEXES

- The new orders sub-index in the **Australian PMI®** increased by 0.5 points to 53.4 points in August, signalling an expansion. Several respondents attributed this improvement in orders to stronger building activity and to import replacement due to the lower Australian dollar.
- Manufacturing production expanded for a third month in September, with a sub-index result of 51.7 points. This was a similar pace of expansion to August.
- Manufacturing sales returned to expansion in September after contracting last month, with the sub-index up by 4.6 points to 53.2 points.
- Reflecting the improvement in trading conditions, the supplier deliveries sub-index moved up by another 0.9 points to 53.9 points, its highest reading since May.
- Manufacturers ran down their stock levels for an eighth consecutive month, with the sub-index broadly unchanged at 48.6 points in September (up 0.2 points).
- The manufacturing employment sub-index was broadly stable at 50.7 points, after expanding in August. Manufacturing conditions will need to strengthen further to support any jobs recovery from here. The latest ABS data show manufacturing employment declined by another 1.8% in the three months to August, to be down by 3.3% p.a. (30,000 fewer manufacturing jobs nationally than a year earlier).
- The manufacturing exports sub-index jumped by 7.0 points to 51.7 points in September. The exports sub-index has expanded in seven of the nine months of 2015 to date.
- Manufacturers' capacity utilisation rate increased by a further 0.6 percentage points, with an average of 71.9% of total capacity being utilised by manufacturers in September.



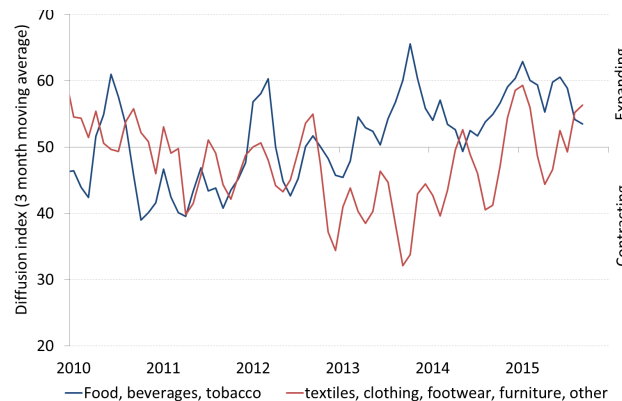
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index eased by 0.9 points to 66.9 points in September. This sub-index remains relatively elevated, as the further depreciation of the Australian dollar in 2015 has raised prices for imported inputs. Comments from respondents suggest these price rises for imported inputs are starting to bite into margins, with more businesses planning to raise their selling prices to cover these increased costs.
- The wages sub-index of the **Australian PMI®** eased by 9.3 points to 55.0 points in September, as the annual wage increases for national minimum and award wage rates (+2.5% effective from 1 July) have now passed. Outside of this annual process, wage growth is likely to remain slow, reflecting weak demand for labour in manufacturing, a stubborn unemployment rate (6.2% in August), and very low background inflation (1.5% p.a. in June).
- The manufacturing selling prices sub-index was broadly stable at 47.9 points in September (48.3 points in August), signalling a mild contraction. This followed a brief expansion in selling prices in July. It indicates strong competition and downward pricing pressures, despite the growing pressure on margins due to more expensive imported inputs.



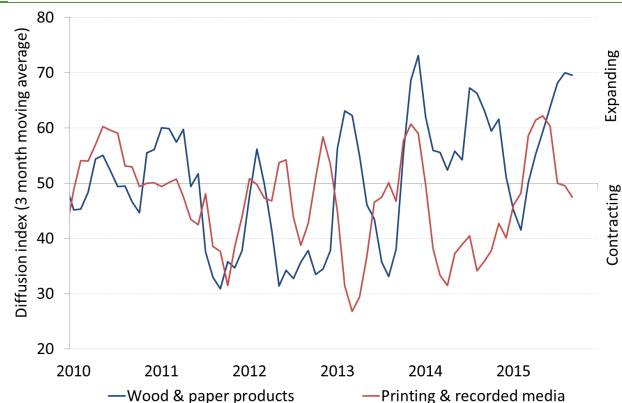
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The food, beverages and tobacco sub-sector expanded for a 16th consecutive month in September (53.5 points), albeit at a slightly slower pace than in previous months (e.g. 58.9 points in July). Respondents in this sub-sector are reporting stronger new orders from export and local customers, largely in response to the lower Australian dollar. This manufacturing sub-sector is Australia's largest, accounting for more than a quarter of all manufacturing output and employment.
- The small and very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector's** index rose by a further 1.1 points to 56.3 points in September, its strongest result since February 2015 (three-month moving averages). A lower Australian dollar, a buoyant housing market and very low interest rates appear to be assisting demand for Australian-made furniture and household goods, despite relentless imports competition.



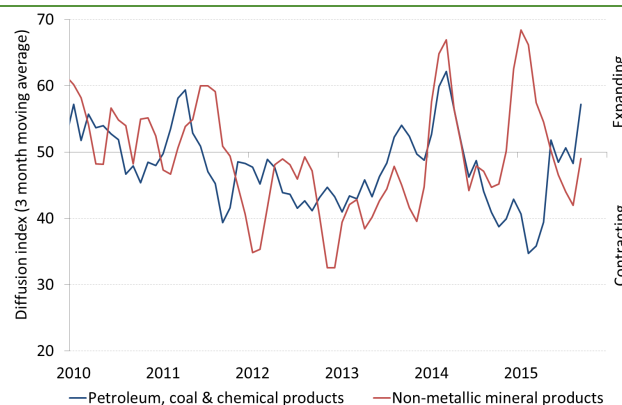
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for a seventh consecutive month in September, with the sub-sector's index broadly stable at 69.6 points (70.0 points in August). Demand for wood-based building products continues to benefit from improvements in residential construction activity, while local card and paper-based packaging products are seeing a small flow-on from ongoing growth in food processing.
- Activity in the very small **printing and recorded media sub-sector** declined in September after a period of growth earlier in 2015. The sub-sector's index was down 2.1 points, to 47.4 points. Rapid technology change and intense import competition appear to be making their mark again, despite the lower Australian dollar. Respondents from this sub-sector continue to report redundancies, business closures, relocations and restructuring.



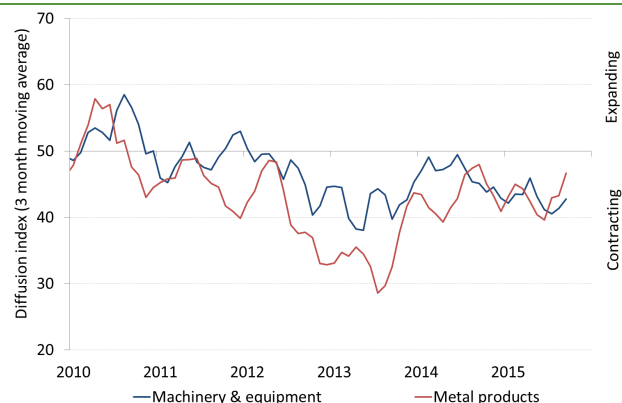
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** improved after a period of contraction and stability over the past year. The sub-sector index jumped 8.9 points to 57.2 points in September, its strongest result since March 2014. This patchy period reflects the diversity of this large manufacturing sub-sector, which includes growth spots such as pharmaceuticals and toiletries as well as basic and specialised chemicals. The latter face patchy demand from a diverse range of supply chains including the automotive and mining engineering sectors (down) and residential construction (up).
- The **non-metallic mineral products sub-sector's** index improved by 7.1 points to 49.0 points in September, signalling broadly stable conditions after three months of contraction. Respondents indicated that demand for local building products (such as tiles, bricks, cement and glass) from the residential building sector appears to be improving again, but this is being countered by weaker demand from commercial and engineering constructors.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index improved by 3.4 points to 46.7 points in September. This suggests the pace of contraction may have eased, possibly in response to the lower dollar and to better demand from residential (but not engineering) construction. This sub-sector has contracted continuously since September 2010. It includes steel, aluminium, metal forging and related metallic products.
- The index for the closely related **machinery and equipment sub-sector** increased by 1.5 points to 42.8 points in September. This sub-sector has contracted in every month since February 2012 (three month moving averages). It includes automotive, other transport equipment, mining equipment, agricultural, industrial and other specialist machinery. The long-term contraction of this sub-sector largely reflects the decline (and impending closure) of all Australian automotive assembly, which tends to mask pockets of strength in other segments such as specialised machinery and transport manufacturing other than cars.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	52.1	0.4	48.8	Exports	51.7	7.0	51.2
Production	51.7	0.5	48.9	Sales	53.2	4.6	47.4
New Orders	53.4	0.5	48.8	Input Prices	66.9	-0.9	68.2
Employment	50.7	-0.5	48.6	Selling Prices (unadj.)	47.9	-0.4	48.4
Inventories (stocks)	48.6	0.2	47.8	Average Wages (unadj.)	55.0	-9.3	56.6
Supplier Deliveries	53.9	0.9	49.7	Cap. Utilisation (%)(unadj.)	71.9	0.6	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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