

MANUFACTURING HOLDS ONTO RECENT GAINS

Australian PMI®
 Oct 2015: 50.2 ↓

US Flash PMI
 Oct 2015: 54.0 ↑

Markit Eurozone PMI
 Sep 2015: 52.0 ↓

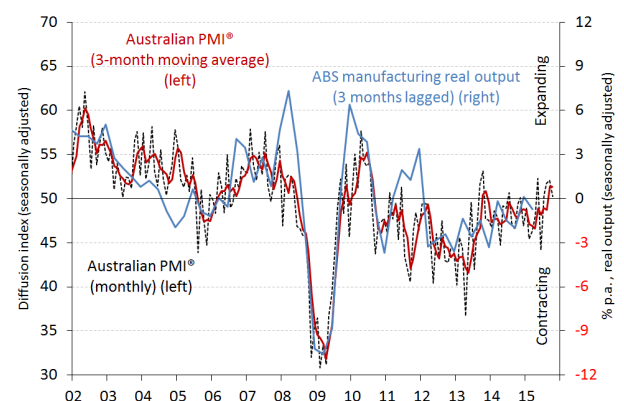
UK CIPS PMI
 Sep 2015: 51.5 -

Japan Flash PMI
 Oct 2015: 52.5 ↑

China Caixin PMI
 Sep 2015: 47.2 ↓

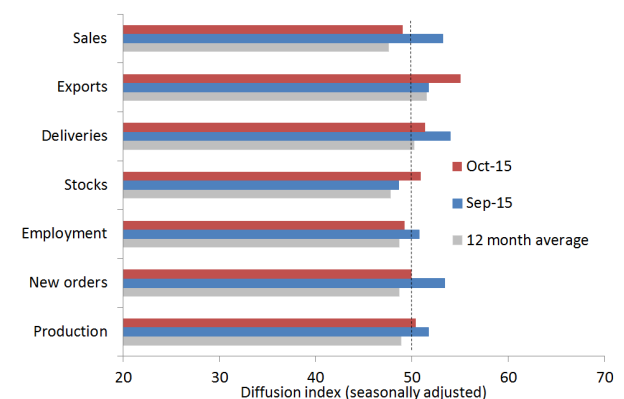
KEY FINDINGS

- The manufacturing industry expanded for a fourth consecutive month in October, albeit only marginally. The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined by 1.9 points to 50.2 points (readings above 50 points indicate expansion) (seasonally adjusted).
- This month's result is only very mildly positive, suggesting stability rather than meaningful growth across Australia's manufacturing sectors.
- October marked the 4th consecutive month in which the **Australian PMI®** was above 50.0 points (net expansion). This was the longest run of expansionary readings since July 2010.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in October.
- Among the seven activity sub-indexes, only exports (55.0 points) and supplier deliveries (51.3 points) were firmly positive and indicating expansion. The other five activity sub-indexes hovered just above or below 50.0 points in October, broadly indicating stability.
- This year, October included an extra public holiday in Victoria for the first time and confirmed at short notice. This disrupted many manufacturers' production and sales plans nationally. The disruption was compounded due to the timing of this holiday, just before public holidays in other states the following week. Respondents to the **Australian PMI®** indicated this affected their normal operations and delayed production, with affected manufacturers working extra shifts to meet pre-arranged schedules.
- Other factors affecting manufacturers in October included the low dollar and better local confidence (both positives), but a rather mixed pipeline of new customers and new orders.



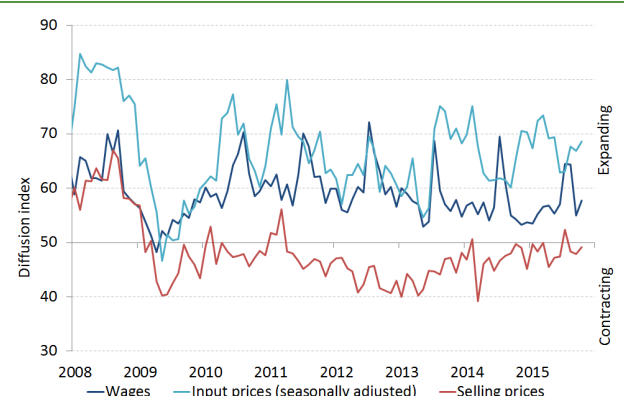
ACTIVITY SUB-INDEXES

- The new orders sub-index in the **Australian PMI®** declined by 3.5 points to 49.9 points in October (i.e. broadly stable). This followed two months of expansion.
- Manufacturing production expanded for a fourth month in October, albeit at a slower pace. The production sub-index declined by 1.3 points to 50.4 points, suggesting stability.
- Manufacturing sales returned to very mild contraction in October, with the sub-index declining by 4.2 points to 49.0 points. The sales sub-index has been patchy recently, contracting in two of the past four months and expanding in the other two months.
- Reflecting this patchwork of trading conditions, the supplier deliveries sub-index declined by 2.6 points to 51.3 points, although it still indicated a moderate expansion.
- Manufacturers' stocks levels were broadly stable in October, after eight months of decline. The inventory sub-index increased by 2.3 points, to 50.9 points this month.
- The manufacturing employment sub-index also contracted mildly in October after two months of expansion, decreasing by 1.5 points to 49.2 points. This followed a 1.8% decline in manufacturing employment in the three months to August, to be down by 3.3% p.a. (30,000 fewer manufacturing jobs nationally than a year earlier) according to the ABS data.
- Manufacturing exports strengthened in October, with the exports sub-index increasing by 3.3 points to 55.0 points. Exports have expanded in eight of the ten months of 2015 to date.
- Manufacturers' capacity utilisation rate increased by 3.8 percentage points, with an average of 75.6% of capacity being utilised by manufacturers in October. This jump may reflect catch-up shifts for some manufacturers due to the extra public holiday in Victoria.



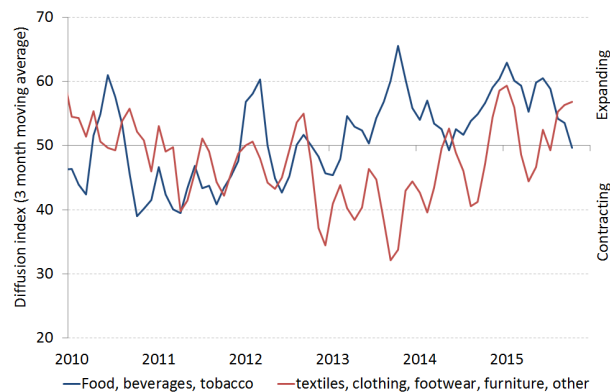
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index increased by 1.7 points to 68.6 points in October. This sub-index suggests annual growth in manufacturing input prices have accelerated since the beginning of this year, as the depreciation of the Australian dollar has raised prices for imported inputs. Comments from respondents suggest these price rises for imported inputs are squeezing their margins, as businesses face difficulties raising their selling prices to cover these increased costs amid fierce local and global competition.
- The wages sub-index of the **Australian PMI®** increased by 2.7 points to 57.7 points in October, suggesting annual wage growth is likely to remain subdued. This reflects declining demand for labour in manufacturing (-3.3% p.a. in August), a stubborn unemployment rate (6.2% in September), and very low background inflation (1.5% p.a. in September).
- The manufacturing selling prices sub-index increased by 1.3 points, to 49.2 points in October. This signalled a very mild contraction or stability at best in selling prices. Manufacturers continue to face strong competition and downward pricing pressures, despite the growing pressure on margins due to more expensive imported inputs.



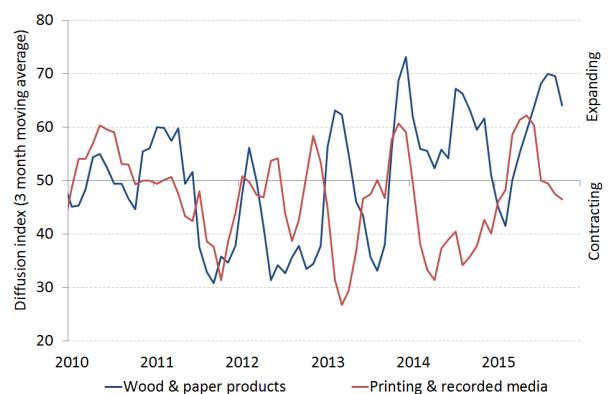
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** was broadly stable in October after 16 months of expansion. The sub-sector's index declined by 3.8 points to 49.7 points this month (three-month moving averages). While the lower Australian dollar continues to benefit exports, respondents in this sub-sector raised concerns about higher costs for imported and local raw food materials. This manufacturing sub-sector is Australia's largest, accounting for more than a quarter of all manufacturing output and employment.
- The small, very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector's** index was little unchanged, at 56.9 points in October. This was its strongest result since February 2015 (three-month moving averages). A lower Australian dollar, ongoing strength in the housing market and very low interest rates seem to be supporting demand for Australian-made furniture, furnishings and household goods, despite fierce import competition.



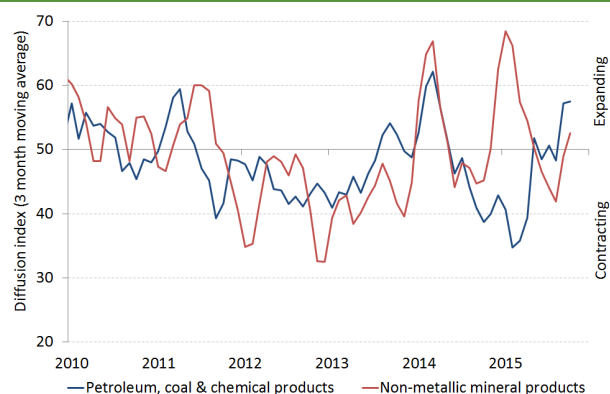
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for an eighth consecutive month in October, albeit at a slower pace. The sub-sector's index declined by 5.5 points, to 64.0 points this month. Higher residential construction activity is boosting demand for wood-based building products. Local paper-based packaging products are also benefitting somewhat from growth in food manufacturing over the past year.
- Activity in the very small **printing and recorded media sub-sector** declined for a third month in October, following a period of growth earlier in 2015. The sub-sector's index was down by 0.9 points, to 46.6 points. Despite the lower Australian dollar, rapid technology change and intense import competition continue to weigh heavily on this sector, which is experiencing ongoing business closures, relocations and restructuring.



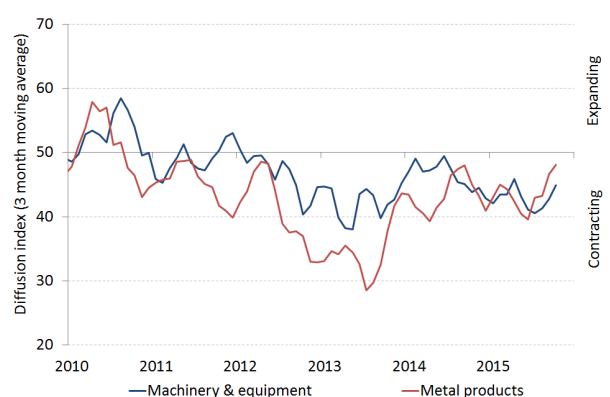
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded for a second month after a weak performance over the preceding year. The sub-sector's index increased marginally, to 57.5 points in October. A lower Australian dollar, very low interest rates and increased residential building activity are supporting demand for a range of products, such as pharmaceuticals and toiletries as well as basic and specialised chemicals. However, ongoing malaise in the automotive and mining sectors continues to drag down demand for related products from this sub-sector.
- The **non-metallic mineral products sub-sector** expanded for the first time in five months. The sub-sector index improved again by 3.6 points to 52.6 points in October. This followed four months of contraction. Feedback suggests increased demand for local building products (such as tiles, bricks, cement and glass) from the residential building sector is lifting this sub-sector into expansion again, despite falling demand from engineering construction.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index moved up by 1.4 points to 48.1 points in October, the highest level since May 2012. This indicated a milder pace of contraction in overall conditions. This sub-sector has contracted continuously since September 2010. The lower Australian dollar and higher residential (but not engineering) construction activity are supporting demand for a range of steel, aluminium, metal forging and related metallic products. Nonetheless, further falls in mining-related construction and the progressive closure of Australian automotive assembly are dragging down overall sector activity.
- The index for the closely related **machinery and equipment sub-sector** increased by 2.2 points to 45.0 points in October. This sub-sector has been in continuous contraction 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 impending closure of Australian automotive assembly. Elsewhere, concerns about worsening drought in rural areas are affecting local orders for specialised agricultural machinery and transport 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®	50.2	-1.9	48.9	Exports	55.0	3.3	51.5
Production	50.4	-1.3	48.9	Sales	49.0	-4.2	47.6
New Orders	49.9	-3.5	48.7	Input Prices	68.6	1.7	68.5
Employment	49.2	-1.5	48.7	Selling Prices (unadj.)	49.2	1.3	48.3
Inventories (stocks)	50.9	2.3	47.8	Average Wages (unadj.)	57.7	2.7	56.9
Supplier Deliveries	51.3	-2.6	50.2	Cap. Utilisation (%)(unadj.)	75.6	3.8	71.9

* 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>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.