

## MANUFACTURING SEES A STRONGER START TO 2016

**Australian PMI®**  
 Jan 2016: 51.5 ↓

**US Flash PMI**  
 Jan 2015: 52.7 ↑

**Eurozone Markit PMI**  
 Dec 2015: 53.2 ↑

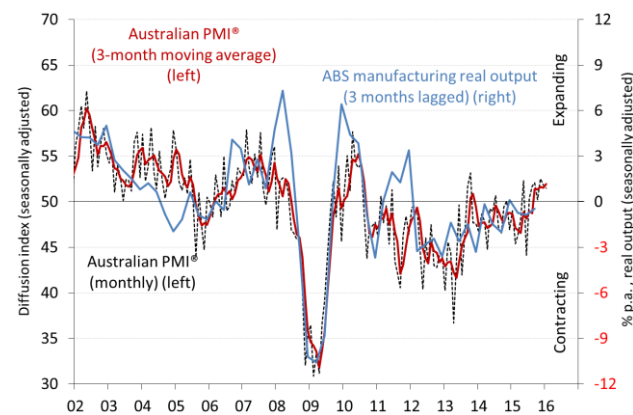
**UK CIPS PMI**  
 Dec 2015: 51.9 ↓

**Japan Flash PMI**  
 Jan 2015: 52.4 ↓

**China Caixin PMI**  
 Dec 2015: 48.2 ↓

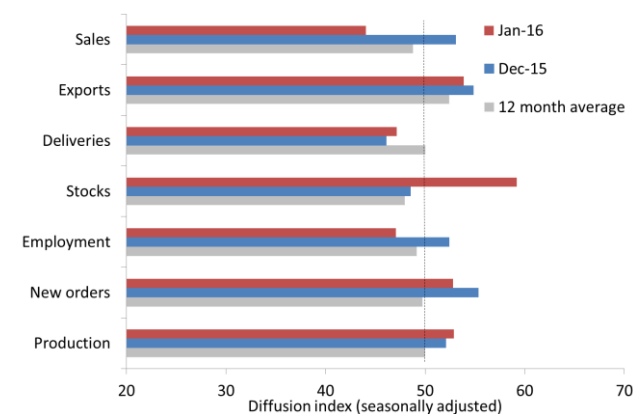
### KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined by a marginal 0.4 points to 51.5 points in January, indicating a net expansion across manufacturing (index results above 50 points indicate expansion).
- January was the 7<sup>th</sup> consecutive month in which the **Australian PMI®** has been above 50 points (net expansion). This is the longest unbroken run of expansion since 2010. Eight of the past nine months have had an **Australian PMI®** result above 50 points.
- Of the seven activity sub-indexes in January, new orders (52.8 points), exports (53.9 points) and production (52.9 points) remained strongly positive, but employment, supplier deliveries and sales slipped back into contraction. Stocks (inventories) were replenished (59.2 points) after two months of contraction before the summer break.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in January (in three month moving averages), down from five sub-sectors in December and November, with non-metallic mineral products (building materials) dropping under 50 points and into contraction. The best expansions continue to be in food & beverages, wood & paper and petroleum & chemicals. Machinery and equipment remains in contraction but is steadily moving towards stabilising, with its best **Australian PMI®** result since June 2014.
- Positive trends identified by manufacturers in January included: the low dollar supporting exports to Asia and the Middle East and better local orders; improved local confidence; and stronger demand for local building materials, food, groceries and healthcare products.
- These positive trends were offset by slowing automotive production, mining projects and Government infrastructure projects. Input cost increases are becoming more widespread as drought affects supplies for food and beverages producers. Energy costs are also rising.



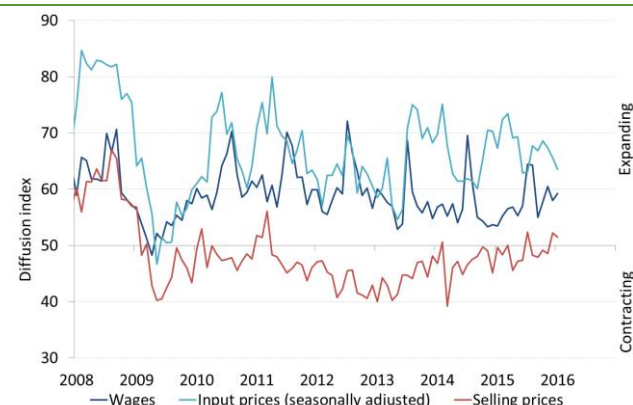
### ACTIVITY SUB-INDEXES

- Importantly for the outlook for 2016, the new orders sub-index in the **Australian PMI®** stayed positive in January (52.8 points), albeit at a slower rate than in December (55.3 points). This key sub-index has been positive for six of the past nine months.
- The exports sub-index eased by a further 1.0 points to 53.9 points in January, but remained firmly positive. The exports sub-index expanded in ten months of 2015 and averaged 52.5 points over the year, supported by the lower Australian dollar.
- The sub-index for production recovered to 52.9 points in January after slowing to 52.1 points in December. It has been above 50 points for the past seven months.
- Sales dipped into contraction (44.1) after strong growth in December and November.
- The manufacturing employment sub-index eased to 47.1 points in January, after expanding in four out of five previous months. Survey respondents indicated some manufacturers intend to rebuild their staff in 2016 but fear skill shortages might hamper their plans. ABS labour force data show that manufacturing employment dropped by 54,000 (-6%) to 848,000 people over the year to November 2015, with job losses in machinery and metals.
- Stocks (59.2 points) were rebuilt in January after sharp falls in the last months of 2015.
- Manufacturers' capacity utilisation rate fell to 71.3% of capacity being utilised in January, largely due to seasonal shut-downs. Capacity utilisation hit a recent high in December.



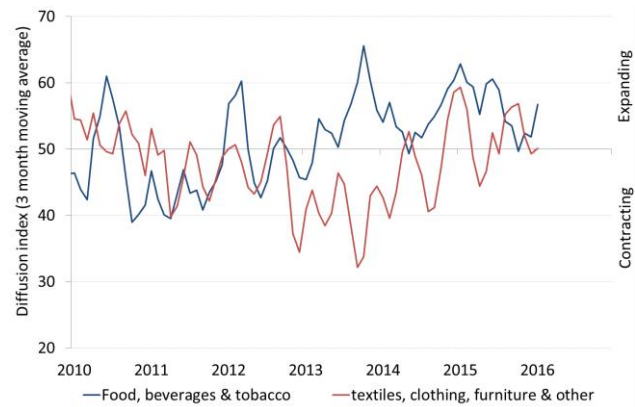
### WAGES AND PRICES SUB-INDEXES

- The **Australian PMI®** input prices sub-index decreased to 63.6 points in January, indicating some moderation in input price pressures since its recent peaks in October 2015 and March 2015. Survey respondents indicate that price increases for imported inputs remain a live issue across most manufacturing sub-sectors, despite fierce import competition.
- The wages sub-index of the **Australian PMI®** ticked up to 59.3 points in January, despite weak labour demand. This might reflect a slight acceleration in background inflation, with the latest CPI moving up to 1.7% p.a. in December 2015, from 1.5% p.a. in September.
- The manufacturing selling prices sub-index of the **Australian PMI®** remained above 50 points for a second month in January, at 51.5 points (down from 52.2 points in December), signalling mild rises in selling prices in these two months, for the first time since July. This suggests the pressure on input prices from the lower dollar, drought, wages and other factors is now being passed on (at least partially), despite fierce competition.



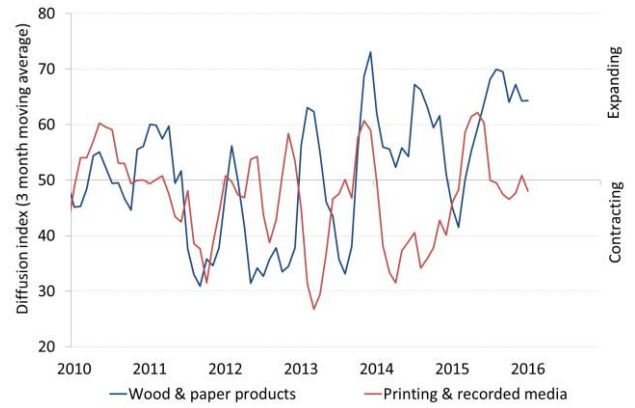
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The **food, beverages and tobacco sub-sector** expanded at a faster rate in January, with its index moving up to 56.7 points (highest since July 2015). This giant sub-sector expanded in 11 months of 2015 and in 19 of the past 20 months. The lower Australian dollar is helping exports and the replacement of imports. Food and beverages respondents in the **Australian PMI®** are concerned about higher prices for imported inputs due to the low dollar and higher prices for local meat and other raw materials due to drought.
- The small and very diverse **textiles, clothing, furniture and other manufacturing sub-sector's** index indicated stable conditions in January, at 50.1 points, following a mild contraction in December (49.3 points). This sub-sector expanded in seven months of 2015. A stronger housing market is supporting demand for Australian-made furniture and household goods, but import competition remains fierce and local sales remain patchy.



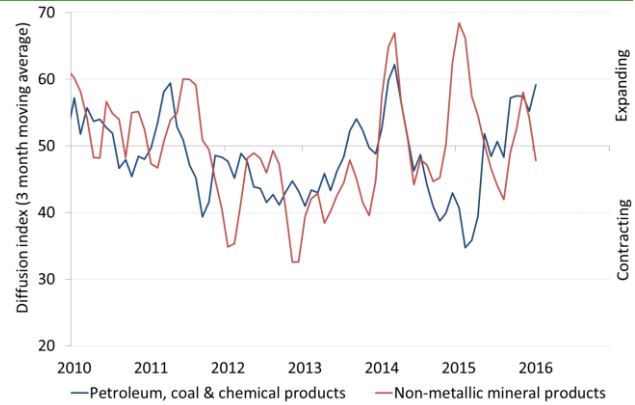
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The relatively small **wood and paper products sub-sector** expanded for an eleventh consecutive month in January, at 64.3 points (unchanged from December). Wood and paper sub-sector respondents in the **Australian PMI®** reported solid demand for paper packaging products from food and grocery producers in January, but mixed demand for wood products from the residential building industry.
- Activity in the very small **printing and recorded media sub-sector** slipped back into contraction, at 48 points in January, after a brief reprieve in December (50.9 points). This sub-sector expanded in only four months of 2015 (March to June), with stable or declining conditions in all other months. Despite the lower Australian dollar, rapid technology change and intense import competition continue to weigh heavily on this sector.



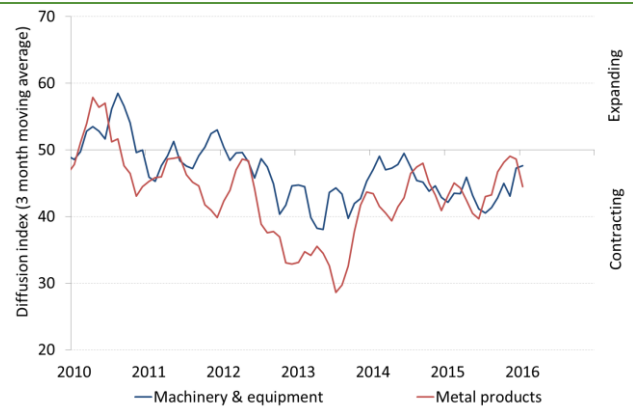
## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded for a fifth consecutive month in January (59.1 points) and at the strongest rate for this sub-sector since March 2014 (62.2 points). This extremely diverse sub-sector includes current growth hot spots such as pharmaceuticals, toiletries and health supplements, as well as residential construction-related products such as paints, adhesives and surface treatments. Declining automotive activity in Australia and slow mining exploration activity are reducing demand for specialist chemicals supplied by this sector.
- The **non-metallic mineral products sub-sector** contracted in January (47.8 points) after three months of expansion. Demand for building products such as tiles, bricks, cement and glass remains patchy, with solid demand from residential builders but falling demand from engineering construction and from the local automotive supply chain (e.g. glass for cars).



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products sub-sector's** index dropped to 44.4 points in January, after moving very close to stabilising in November (49.0 points). This sub-sector has contracted continuously since September 2010. The lower Australian dollar and higher residential (but not engineering) construction are supporting demand for some but not all types of steel and housing-related related metallic products. Massive changes in global supply chains, pricing and demand patterns will continue to reshape this key sub-sector through 2016.
- The index for the closely related **machinery and equipment sub-sector** edged up to 47.6 points in January. This was the best result for this sub-sector since June 2014, but it still indicated a further contraction. This sub-sector has been in continuous decline since February 2012, reflecting the contraction of Australian automotive activity. This trend will accelerate through 2016 as passenger car assembly moves closer to its total exit from Australia. Demand for specialist mining and agricultural equipment is also ebbing away, due to the global commodities slump and widespread drought conditions in regional areas.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PMI®</b>	<b>51.5</b>	<b>-0.4</b>	<b>49.5</b>	<b>Exports</b>	<b>53.9</b>	<b>-1.0</b>	<b>52.4</b>
<b>Production</b>	52.9	+0.8	50.0	<b>Sales</b>	44.1	-9.0	48.8
<b>New Orders</b>	52.8	-2.5	49.7	<b>Input Prices</b>	63.6	-2.0	67.9
<b>Employment</b>	47.1	-5.3	49.2	<b>Selling Prices (unadj.)</b>	51.5	-0.7	48.8
<b>Inventories (stocks)</b>	59.2	+10.7	47.9	<b>Average Wages (unadj.)</b>	59.3	+1.3	58.3
<b>Supplier Deliveries</b>	47.1	+1.0	50.0	<b>Cap. Utilisation (%) (unadj.)</b>	71.3	-4.6	72.2

\* 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.aiigroup.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.