

MANUFACTURING GROWTH AT ITS STRONGEST SINCE 2010

Australian PMI®
 Feb 2016: 53.5 ↑

US Flash PMI
 Feb 2016: 51.0 ↓

Eurozone Flash PMI
 Feb 2016: 51.0 ↓

UK CIPS PMI
 Jan 2016: 52.9 ↑

Japan Flash PMI
 Feb 2016: 50.2 ↓

China Caixin PMI
 Jan 2016: 48.4 ↑

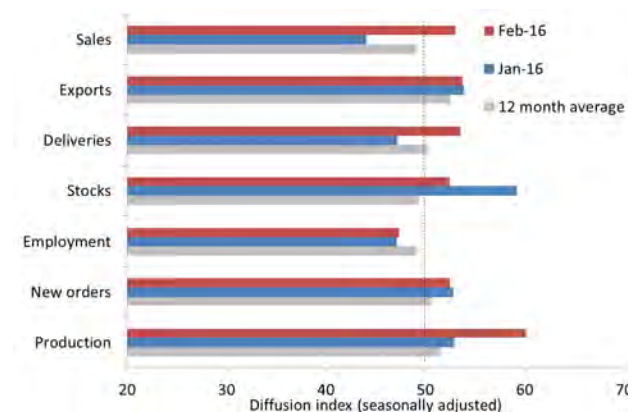
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) jumped by 2.0 points to 53.5 points in February 2016, taking it to its highest level since July 2010 and indicating a stronger rate of expansion (**Australian PMI®** results above 50 points indicate expansion).
- February was the eighth consecutive month in which the **Australian PMI®** has been above 50 points (net expansion). This is the longest continuous run of expansion since 2006.
- Of the seven activity sub-indexes in the **Australian PMI®**, production (60.1 points), new orders (52.4 points), stocks (52.5 points), deliveries (53.5 points) exports (53.7 points) and sales (53.0 points) were positive in February. Employment (47.4 points), remained in contraction. Deliveries moved back into expansion in February after two months of contraction over the holiday period.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in February (three month moving averages), the same number as in January. Textiles, clothing and other manufacturing fell into contraction and non-metallic mineral products moved into expansion. The best expansions continue to be in food & beverages (61.7 points), wood & paper (57.1 points) and petroleum & chemicals (56.4 points). Machinery and equipment moved very close to stabilising (49.3 points), with its best result since June 2014.
- Positive trends identified by manufacturers in February included the lower Australian dollar, which is boosting export volumes, and some new construction projects and expansions.
- These positive trends were offset by further falls in mining investment, adverse impacts from drought conditions, intense overseas competition and ongoing pressure on margins.



ACTIVITY SUB-INDEXES

- Importantly for the 2016 outlook, the new orders sub-index in the **Australian PMI®** stayed positive in February (52.4 points), albeit at a slightly slower rate than in January (52.8 points). This key sub-index has been positive for six of the past seven months.
- The exports sub-index was largely unchanged at 53.7 points in February and remains firmly positive. The exports sub-index has expanded in ten months of the past year and has averaged 52.5 points over this period, supported by the lower Australian dollar.
- Sales returned to expansion February (53.0 points) after contracting in January. The sales sub-index has been weaker and more volatile than the exports sub-index over the past year, probably reflecting the patchy nature of demand in the local economy.
- The sub-index for production increased strongly in February to 60.1 points. This was its strongest monthly result since December 2004. It suggests a catch-up period may be in train, after several months of expansion in exports and new orders.
- The manufacturing employment sub-index remained in contraction in February (47.4 points). Survey respondents indicated that some manufacturers intend to rebuild their staff numbers in 2016 but fear skill shortages might re-emerge.
- Stocks expanded at a slower rate in February (52.5 points), after a stronger result in January. Stocks are being replenished following sharp falls toward the end of 2015.
- Manufacturers' capacity utilisation rate improved to 75.3% of capacity being utilised after the holiday period, maintaining high capacity utilisation rates compared to recent years.



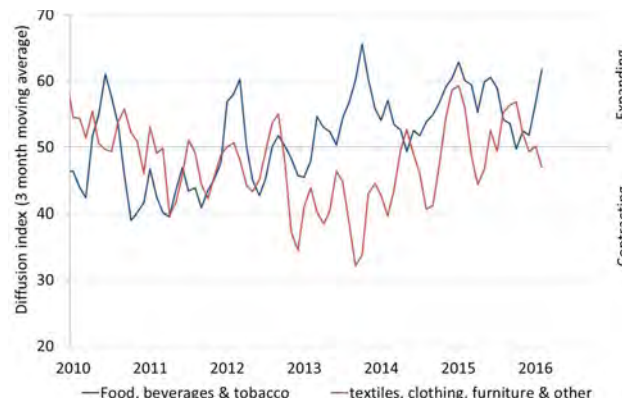
WAGES AND PRICES SUB-INDEXES

- The **Australian PMI®** input prices sub-index was largely unchanged in February at 63.5 points, indicating some stabilisation in input price pressures since its recent peaks in 2015.
- The wages sub-index of the **Australian PMI®** fell back modestly to 56.4 points in February. This may reflect the unsteady demand for labour in manufacturing in recent months.
- The manufacturing selling prices sub-index of the **Australian PMI®** fell to 48.3 points, after two months of expansion. This signalled a round of mild selling price cuts, for the first time since July 2015. This indicates tightening margins, since it coincides with continued increases in input prices.



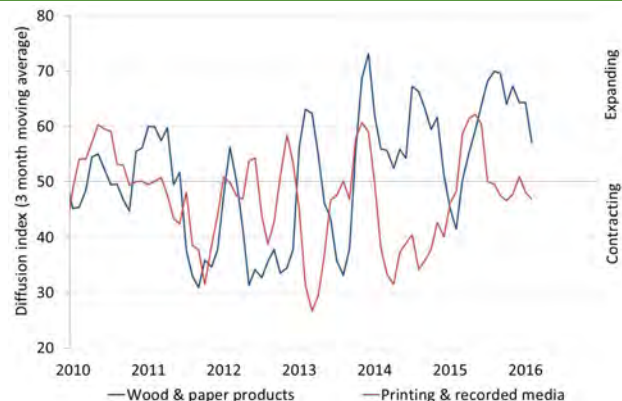
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** continued to accelerate in February, expanding at its fastest rate since January 2015, at 61.7 points. This giant sub-sector has expanded in eleven months of over the past year and in twenty of the past twenty-one months. The lower Australian dollar is benefiting exports growth and the replacement of imports. Food and beverages respondents in the **Australian PMI®** flagged an increase in exports as a key source of growth.
- The small, diverse **textiles, clothing, furniture and other manufacturing sub-sector's** index indicated deteriorating conditions in February, at 46.9 points, following a stable month in January (50.1 points). This sub-sector has shown mixed performance, with six months of expansion over the past year and six months of contraction. Survey respondents in the **Australian PMI®** noted a slow start to the year and an extended holiday period for some.



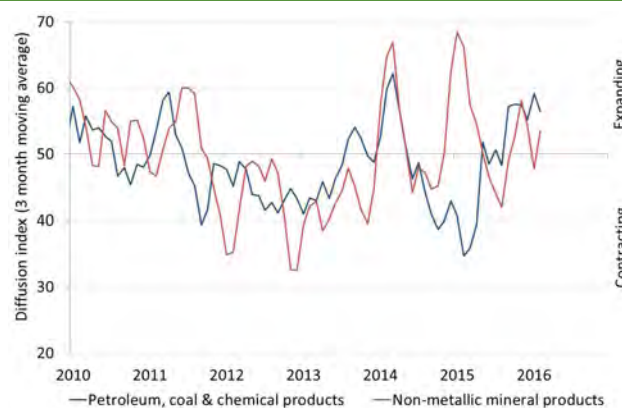
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for a twelfth consecutive month in February, at 57.1 points, but eased back from higher levels seen in previous months. Wood and paper sub-sector respondents in the **Australian PMI®** reported solid demand in February, reflecting good demand for packaging from the food and groceries sector and better demand for wood products from the building industry.
- Activity in the very small **printing and recorded media sub-sector** continued to fall, at 46.8 points in February. This sub-sector has contracted in five of the past six months, with only one stable month in December (50.9 points). 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 sixth consecutive month in February (56.4 points), easing back from a very strong January (59.1 points). This extremely diverse sub-sector includes current growth hot spots such as pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments. Respondents in the **Australian PMI®** reported an increase in exports as a driver for growth so far in 2016.
- The **non-metallic mineral products sub-sector** rebounded in February (53.5 points) after contracting in January. 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 car parts). Respondents in the **Australian PMI®** cited the lower Australian dollar and a rebound in construction activity after the holiday period as drivers of growth in February.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index fell to 44.1 points in February. This sub-sector has contracted continuously since September 2010. The sector moved close to stabilising in November (49.0 points), but this promising trend has since reversed. Respondents in the **Australian PMI®** reported a reduction in local demand, increasing input costs (including energy and imported inputs), the global downturn in resources activity, intense overseas competition and some major projects being deferred as key reasons for this very protracted contraction.
- The index for the closely related **machinery and equipment sub-sector** edged closer to stabilising, at 49.3 points in February. This was the best result for this sub-sector since June 2014. This sub-sector has been in continuous decline since February 2012, mainly reflecting the contraction of Australian automotive production. This trend will accelerate through 2016 as passenger car assembly moves closer to its final 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
Australian PMI®	53.5	+2.0	50.4	Exports	53.7	-0.2	52.5
Production	60.1	+7.2	51.5	Sales	53.0	+8.9	49.0
New Orders	52.4	-0.4	50.7	Input Prices	63.5	-0.1	66.8
Employment	47.4	+0.3	49.1	Selling Prices (unadj.)	48.3	-3.2	49.0
Inventories (stocks)	52.5	-6.7	49.3	Average Wages (unadj.)	56.4	-2.9	58.5
Supplier Deliveries	53.5	+6.4	50.3	Cap. Utilisation (%) (unadj.)	75.3	+4.0	72.5

* 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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