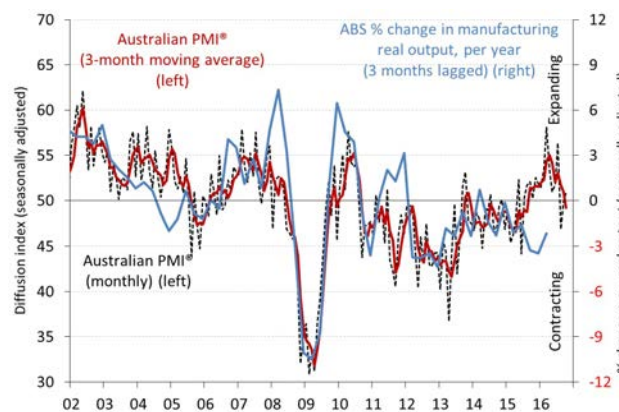


MANUFACTURING EDGES BACK INTO GROWTH IN OCTOBER

Australian PMI® Oct 2016: 50.9 ↑	US Flash PMI Oct 2016: 53.2 ↑	Eurozone Flash PMI Oct 2016: 53.3 ↑	UK PMI Sep 2016: 55.4 ↑	Japan Flash PMI Oct 2016: 51.7 ↑	China Caixin PMI Sep 2016: 50.1 ↑
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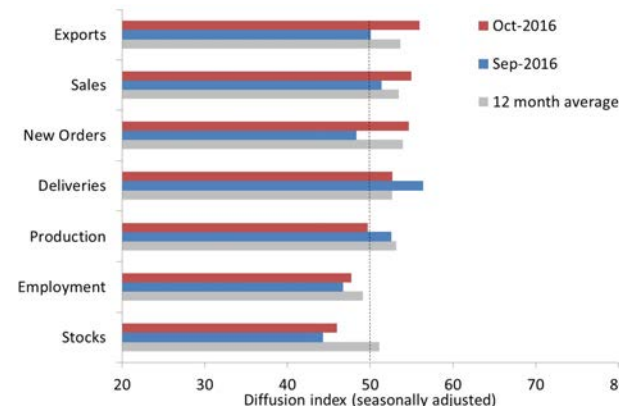
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 1.1 points to 50.9 points in October, signaling a very mild expansion from September across the manufacturing sector (results above 50 indicate expansion, the distance from 50 points indicates the strength of expansion).
- This shift to mildly expansionary conditions in the **Australian PMI®** in October was driven by stronger growth in exports as well as in sales and new orders. This highlights the growing importance of exports to manufacturers and suggests further growth ahead.
- Four of the five activity sub-indexes in the **Australian PMI®** expanded in October. Sales (55.0 points) and new orders (54.7 points) expanded solidly. Exports (56.0 points) returned to expansion from stable conditions while production (49.7 points) eased. Employment (47.7 points) remains contractionary and inventories (45.9 points) were run down in the month (likely the result of some lingering oversupply).
- Three of the eight sub-sectors in the **Australian PMI®** expanded in October (three month moving averages) and one sub-sector was stable. Printing & recorded media (56.8 points) continued growing while petroleum & chemical products (55.4 points) continued a long run of expansion and machinery & equipment (54.1 points) expanded again. Food & beverages (50.4 points) lost some steam but remained stable. Metal products (47.2 points) slipped back into contraction, while textiles & other goods (32.5 points), wood & paper (38.8 points) and non-metallic minerals (45.3 points) moved further into contraction.
- Comments from manufacturers in October indicate that weather conditions may have stifled activity in some regions. Stronger exports and increasing local market shares (import replacements) are boosting activity for many, but input cost pressures are continuing and some manufacturers cite difficulties in passing on price increases. Construction projects in NSW are boosting activity in that state but a lack of large projects and slower Australian mining construction continue to drag on activity elsewhere, with intense competition to supply a smaller number of projects. High electricity prices and supply problems significantly affected some manufacturers in South Australia.



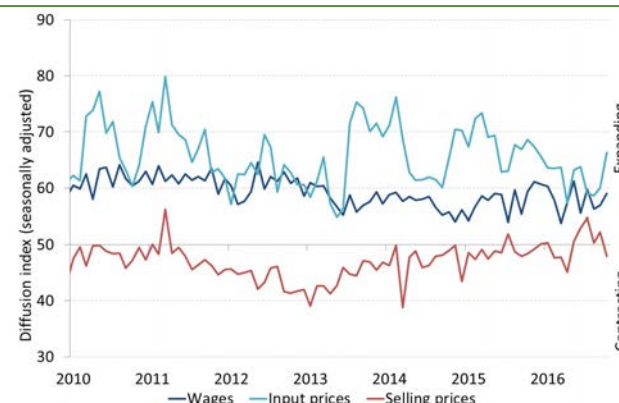
ACTIVITY SUB-INDEXES

- The production sub-index eased by 2.9 points to a stable 49.7 points in October. Production has been solid over the past year (averaging 53.2 points). This is also evident in recent ABS data, with real manufacturing output recovering by 1.0% in the June quarter.
- The new orders sub-index lifted by 6.4 points in October to 54.7 points, signalling continuing growth ahead, particularly for bigger sub-sectors such as food & beverages.
- The sales sub-index increased by 3.6 points to 55.0 points. Sales increased in the food & beverages and printing & recorded media sub-sectors in particular in October.
- The exports sub-index strengthened by 6.0 points to reach 56.0 points in October. Exports expanded in eleven of the last twelve months. Exports are an especially strong source of growth at present for many manufacturers, due to the relatively lower dollar.
- The employment sub-index lifted by 1.0 point but remained contractionary at 47.7 points.
- The sub-index for deliveries eased back by 3.7 points in October, to 52.7 points.
- The stocks sub-index (inventories) gained 1.6 points in October but remained contractionary at 45.9 points, with some excess inventory likely still being reduced.
- Capacity utilisation* improved by 0.3% to 74.7% in October, a relatively high result.



WAGES AND PRICES SUB-INDEXES

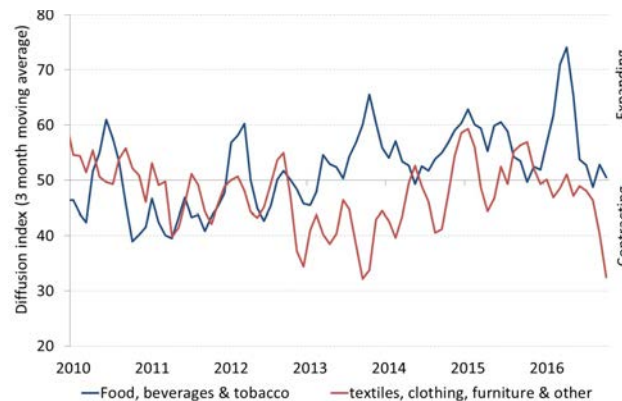
- The **Australian PMI®** input prices sub-index* increased by 6.3 points in October to 66.3 points, intensifying input pricing pressures again. This appears to reflect the depreciation in the Australian dollar (relative to a year or two ago), which is elevating prices for imported inputs. Some manufacturers also indicated local cost pressures from higher energy prices.
- The wages sub-index* of the **Australian PMI®** increased by 2.1 points to 59.0 points in October, adding further pressures to manufacturers margins despite weak labour demand.
- The manufacturing selling prices sub-index* of the **Australian PMI®** moved back into contraction in October, falling 4.4 points to 47.9 points and indicating mild falls in selling prices after a short period of expansion. This aligns with comments from manufacturers in October about difficulties in passing on cost increases. The RBA recently noted that such perceptions of lower pricing power by businesses are becoming more widespread.



* From March 2016, the **Australian PMI®** sub-indices for capacity utilisation, wages and selling prices are reported on a seasonally adjusted basis (previously unadjusted).

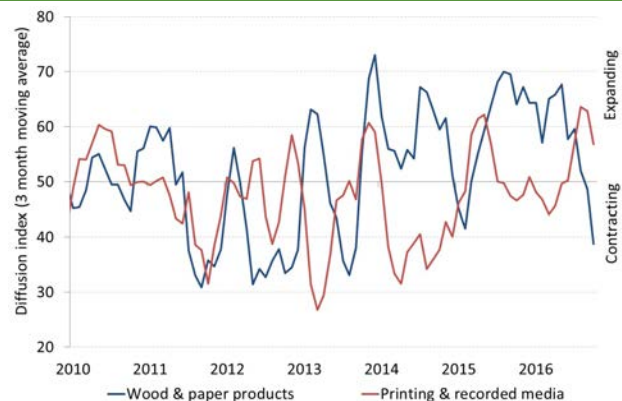
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, eased in October, falling by 2.4 points to a stable 50.4 points. Most positively, respondents in the **Australian PMI®** from this sub-sector noted stronger sales and new orders in the month. Some respondents also noted some reluctance to pass on rising costs, with continuing market surpluses keeping a downward pressure on selling prices.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index plummeted in October, declining by 7.9 points to 32.5 points. This sub-sector has been contracting at worsening rates for six months. Respondents in the **Australian PMI®** noted weak production, exports, ordering and a run-down in inventories. Respondents also noted the current malaise in local retailing is affecting demand for their sub-sector's goods.



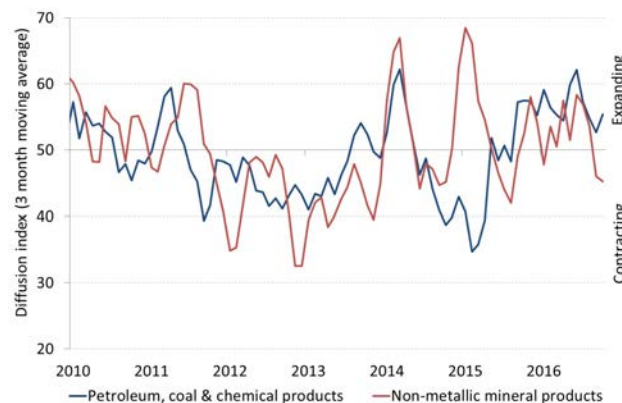
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products** sub-sector's index dropped by 9.8 points, taking it further into contraction at 38.8 points. Performance is perhaps not as bad as it seems with respondents in the **Australian PMI®** from this sub-sector citing weaker stocks and deliveries as key drivers for the slowdown in October, with some growth in exports and new orders evident. The sub-sector had been benefitting from elevated residential building activity (generating demand for wood-based building products) through much of 2015 and 2016, but this boost finally appears to be waning.
- The very small **printing and recorded media** sub-sector's index slowed in October, decreasing by 6.0 points from very strong growth in September, but remaining strong at an expansionary 56.8 points. Respondents in the **Australian PMI®** from this sub-sector reported a significant recovery in employment and sales in October. The sub-sector still faces headwinds from rapid technology change and intense import competition, both of which are weighing on long-term growth.



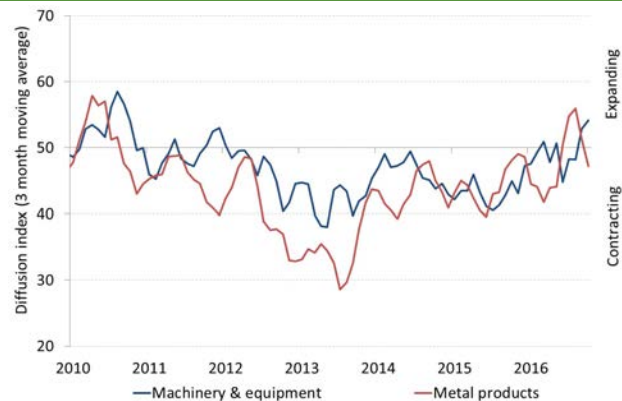
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index increased by 2.7 points to stronger growth at 55.4 points in October. This sub-sector has expanded for fourteen months in a row. Respondents in this sub-sector in the **Australian PMI®** noted stronger production, deliveries and higher inventories during the month. For some, weather conditions may have dampened activity during the month. This extremely diverse sub-sector includes growth hot spots such as pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments.
- The **non-metallic mineral products** sub-sector's index fell further into contraction in October, declining by 0.7 points to 45.3 points. Respondents in the **Australian PMI®** noted weaker new orders, employment and sales in the month. This does not bode well for the months ahead. This sub-sector produces building products such as tiles, bricks, cement and glass. Demand has been mainly coming from residential builders rather than engineering construction, so this latest period of weakness may reflect lower demand from the residential building sector as it passes the peak of the current construction boom.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index fell into contraction in October, after four months of welcome recovery and expansion. The index fell by 4.1 points to 47.2 points. Respondents in the **Australian PMI®** cited weaker exports and softer demand, including from falling mining investment and lower levels of infrastructure construction globally.
- The large **machinery and equipment** sub-sector posted a second month of recovery in October, increasing by 1.3 points to 54.1 points. According to respondents in the **Australian PMI®**, this positive period of expansion has resulted from stronger production, new orders, deliveries and sales for specialist equipment manufacturers. This recovery is occurring despite the ongoing contraction in automotive assembly, which is in the process of exiting from Australia and is included in this sub-sector.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	50.9	1.1	52.3	Exports	56.0	6.0	53.6
Production	49.7	-2.9	53.2	Sales	55.0	3.6	53.5
New Orders	54.7	6.4	53.9	Input Prices	66.3	6.3	62.7
Employment	47.7	1.0	49.1	Selling Prices	47.9	-4.4	49.9
Inventories (stocks)	45.9	1.6	51.1	Average Wages	59.0	2.1	58.3
Supplier Deliveries	52.7	-3.7	52.6	Cap. Utilisation (%)	74.7	0.3	73.8

* 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 October 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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