AUSTRALIAN PMI

PERFORMANCE OF MANUFACTURING INDEX®

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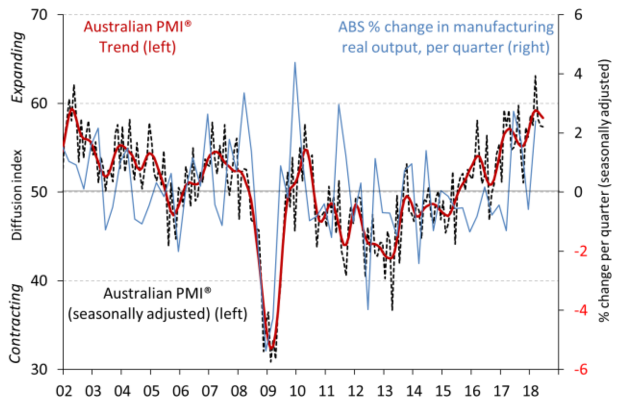
MANUFACTURERS CLOSE FINANCIAL YEAR ON A HIGH

Australian PMI®	US Flash PMI	Eurozone Flash PMI	UK IHS PMI	Japan Flash PMI	China Caixin PMI
Jun 2018: 57.4 ↓	Jun 2018: 54.6 ↓	Jun 2018: 55.0 ↓	May 2018: 54.4 ↑	Jun 2018: 53.1 ↑	May 2018: 51.1 -

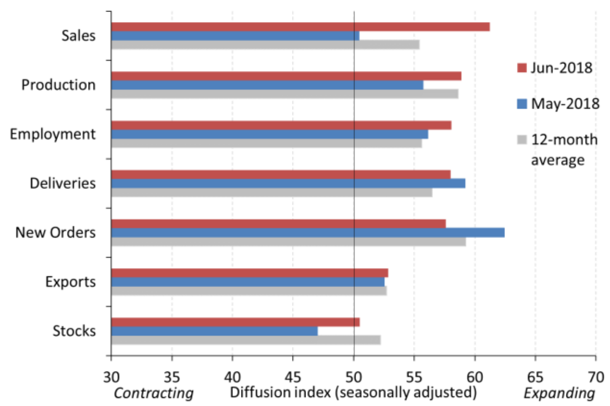
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 0.1 points to 57.4 points, indicating a slightly slower – but still buoyant – rate of expansion in June (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- The **Australian PMI®** has indicated positive conditions (results above 50 points) for twenty-one consecutive months.
- Six of the seven activity sub-indexes in the **Australian PMI®** indicate expansion in June, with only the finished stocks sub-index remaining stable. The new orders sub-index fell in June but remains expansionary, indicating a strong likelihood of further near-term manufacturing growth. This is despite some participants citing a reduction in new orders due to the approaching end of the financial year. The employment sub-index remains buoyant and has indicated stable or expanding conditions since late 2016. ABS employment data indicate manufacturing employment is at its highest level since August 2012.
- Seven of the eight sub-sectors in the **Australian PMI®** expanded in June, with only the textiles, clothing, furniture and other manufacturing sub-sector indicating stable conditions (trend). Sub-sectors that provide manufactured goods for civil engineering, residential, and commercial construction projects continue to report very strong levels of activity.
- Drought conditions are now having an adverse impact on manufacturers linked to the agricultural sector, particularly those operating in the food and beverages, metals and machinery and equipment sub-sectors.



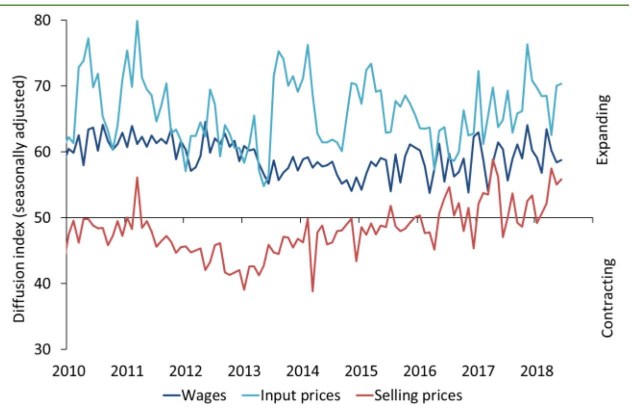
ACTIVITY SUB-INDEXES

- The sales sub-index rebounded in June, rising by 10.8 points to 61.2 points after dropping 12.1 points in May. This sub-index has been above 60 points for three of the last four months and suggests a temporary disruption to sales growth occurred in May.
- The production sub-index rose by 3.2 points to 58.9 points in June, indicating a faster pace of growth.
- The employment sub-index increased 2.0 points to 58.1 points in June. This sub-index has been stable or expanding since December 2016 which is reflected in ABS employment data, with manufacturing employment at its highest level since August 2012 (trend).
- The deliveries sub-index eased by 1.2 points to 58.0 points in June. This indicated a slower rate of expansion of supplies being ordered to meet forward production needs.
- The new orders sub-index dropped 4.8 points to 57.6 points in June. This sub-index continues to indicate good growth prospects for manufacturing for the remainder of 2018, despite some participants citing a reduction in new orders due to the end of financial year.
- The exports sub-index rose by 0.4 points to 52.9 points in June with export growth particularly strong in the food and beverages sub-sector.
- The stocks sub-index increased by 3.5 points to 50.5 points, indicating that finished stocks were stable in June.
- Capacity utilisation rose to 79.1% of available capacity in June. This is well above the historical average of 73.1%, suggesting more businesses have low spare capacity.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index increased by 0.3 points to 70.3 points in June and remains above the historical average of 67.3 points. Input prices remain elevated for petroleum, coal, chemical and rubber products, metal products and non-metallic minerals (building materials), reflecting their high energy input costs.
- The wages sub-index rose by 0.4 points to 58.8 points in June, indicating a faster of wage increases across manufacturing. Some respondents noted difficulty finding production workers in some locations.
- The manufacturing selling price sub-index increased by 0.7 points 55.8 points, indicating more modest price increases for manufacturing customers in June.
- Although selling prices have risen in recent months, the combination of cost pressures – notably energy costs – and intense import competition continue to keep margins tight and restrain wage rises.

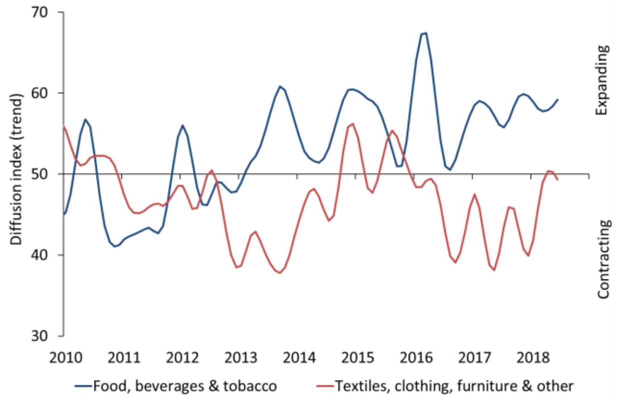


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, rose by 0.8 points to 59.2 points in June and has been expanding since early 2013 (trend). Exports were particularly strong in June, most likely due to a lower Australian dollar and increased regional demand. ABS data confirm the real volume of output (inflation adjusted value-added output) from the food, beverages and tobacco sector grew by 2.0% q/q in Q1 2018.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small but diverse textile, clothing, furniture & other manufacturing sub-sector, fell 1.0 points to 49.3 points in June, indicating stable conditions (trend). In recent months this sub-sector has experienced its best conditions since 2015 (trend). This rebound looks to be temporary however, with contracting new orders indicating this sub-sector will slow again in the coming months. Textiles, clothing and related segments continue to face tough local and global trading conditions.

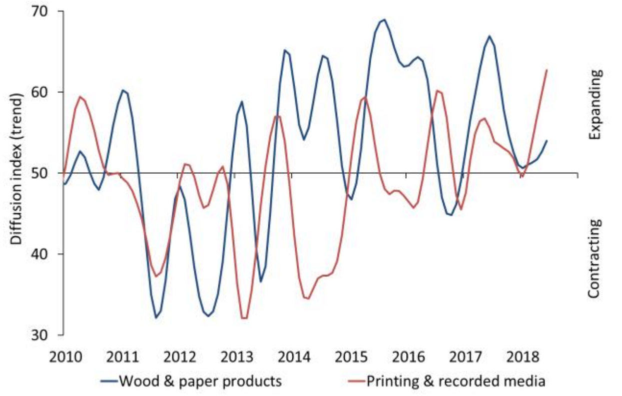


WOOD & PAPER*

- The small wood and paper products sub-sector's index increased by 1.3 points to 54.0 points, indicating expanding conditions in June (trend). Although orders from residential building customers appear to be tailing off, paper and packaging producers are still benefiting from growth in the food and beverages processing sector and from groceries production.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector's index increased by 2.8 points to 62.7 points (trend), indicating faster expansion in June. Production levels were particularly strong for this sub-sector in June, suggesting some respite from the long-term disruptions of technological change and intense import competition. This sub-sector has been particularly volatile of late, with changes in seasonal ordering and purchasing patterns likely playing a part.

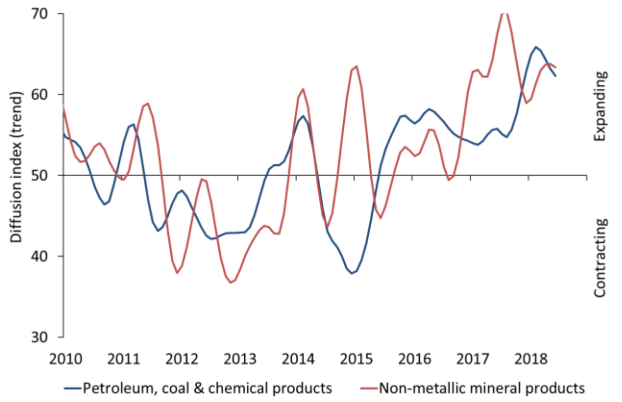


PETROLEUM, COAL & CHEMICALS*

- The index for the large petroleum, coal and chemicals sub-sector fell 0.9 points to 62.3 points in June, indicating a slightly slower, but buoyant rate of expansion in June (trend). This sub-sector's rate of expansion picked up in late 2017 as some manufacturers began servicing large infrastructure projects on the east coast. This extremely diverse sub-sector includes fertilisers, agricultural chemicals, pharmaceuticals, toiletries and health supplements (all of which are growing steadily), as well as construction-related products such as paints, adhesives and surface treatments. High gas costs are a particular concern for parts of this sector that use gas as a feedstock rather than an energy source.

NON-METALLIC MINERALS*

- The index for the non-metallic mineral products (mainly building-related products) sub-sector eased 0.4 points to 63.4 points, indicating expanding conditions, albeit at a slower pace in June (trend). Demand for building-related products (e.g. glass, cement and tiles) from residential construction has slowed from recent peaks, but non-residential building activity is picking up pace and supporting activity in this sub-sector.

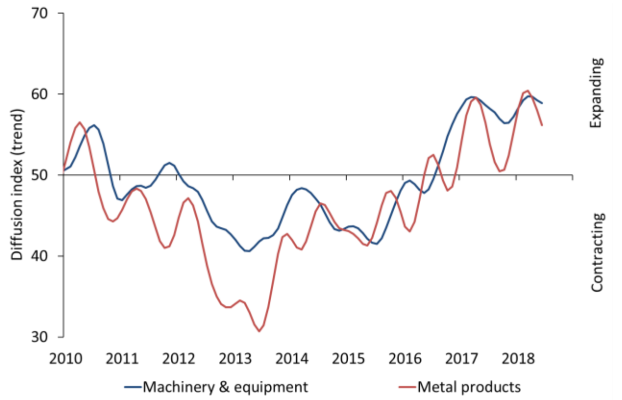


METAL PRODUCTS*

- The large metal products sub-sector's index fell 1.8 points to 56.2 points in June, indicating a slowing pace of expansion. This sub-sector has been sporadically recovering since late 2016, after deeply contractionary conditions from 2010 to 2016. Respondents that sell to the mining industry reported buoyant conditions while exports were weaker in June. Some respondents noted that increased competition from cheaper imports was limiting their ability to raise selling prices in June.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index fell slightly by 0.3 points to 58.9 points in June. This sub-sector includes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars - such as trucks, trains, buses and boats – all of which appear to be in demand in 2018. Some respondents noted that drought conditions are impacting on agricultural machinery and equipment sales.



Seasonally adjusted	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PMI®	**57.4**	**-0.1**	**57.3**	Exports	52.9	0.4	52.7
Production	58.9	3.2	58.6	Sales	61.2	10.8	55.4
New Orders	57.6	-4.8	59.2	Input Prices	70.3	0.3	68.4
Employment	58.1	2.0	55.6	Selling Prices	55.8	0.7	52.3
Inventories	50.5	3.5	52.2	Average Wages	58.8	0.4	59.7
Supplier Deliveries	58.0	-1.2	56.5	Capacity Utilisation (%)	79.1	3.0	77.7

* All sub-sector indexes in the **Australian PMI®** are reported in trend terms (Henderson 13-month filter) 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 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 indicates the strength of the expansion or decline. Australian PMI® results are based on responses from a national sample of manufacturers that includes all states and all sub-sectors. The **Australian PMI®** uses the ANZSIC industry classifications for manufacturing sub-sectors and sub-sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. **For further economic analysis and information from the Australian Industry Group, visit** http://www.aigroup.com.au/policy-and-research/economics/economicindicators/.