

# MANUFACTURING GAINS FURTHER GROUND IN JUNE

**Australian PMI®**  
Jun 2016: **51.8** ↑

**US Flash PMI**  
Jun 2016: **54.4** ↑

**Eurozone Flash PMI**  
Jun 2016: **52.6** ↑

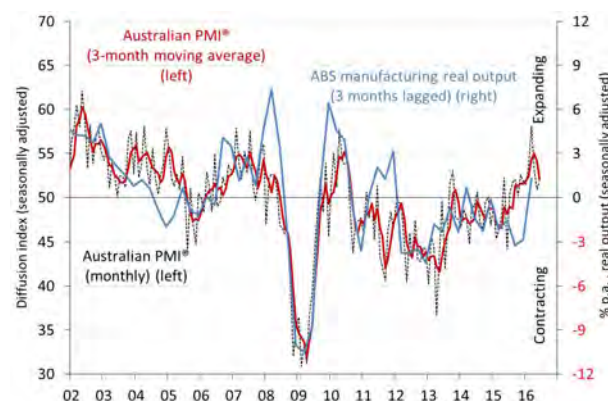
**UK CIPS PMI**  
May 2016: **50.1** ↑

**Japan Flash PMI**  
Jun 2016: **47.8** ↑

**China Caixin PMI**  
May 2016: **49.2** ↓

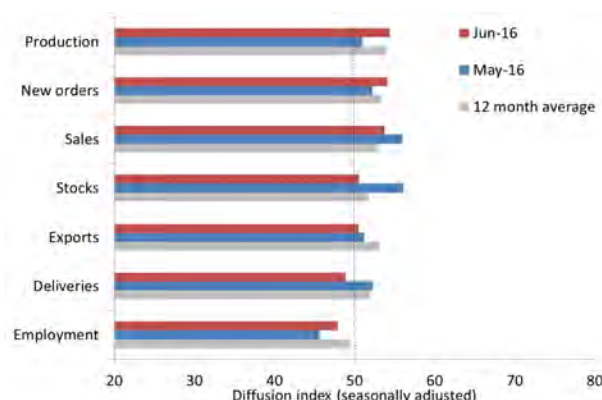
## KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) edged up 0.8 points to 51.8 points in June, taking the index into more expansionary territory (results above 50 points indicate expansion). The June result comes after mildly expansionary conditions in May and marks a complete twelve months of continuous expansion, the equal longest expansion over the last decade.
- The continued expansion in the **Australian PMI®** is linked to the fall of the exchange rate over recent years (despite some periods of strengthening). With the Australian dollar now considerably lower than its peak of nearly five years ago, manufacturers have regained some of the competitiveness that was given up during that period of high exchange rates.
- Five of the seven manufacturing activity sub-indexes in the **Australian PMI®** remained above 50 points in June. Encouragingly, production (54.4 points), new orders (54.1 points) and sales (53.7 points) drove the expansion for the month and this bodes well for future months. The employment sub-index remained in contraction (47.9 points) and deliveries slipped into mild contraction (48.9 points) for the month.
- Six of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in June (three month moving averages). The strongest sub-sectors were petroleum & chemical products (62.1 points), non-metallic mineral products (58.3 points) and wood & paper products (57.7 points). The food & beverage sub-sector lost some steam in the month (down 11.6 points to 53.7 points) but kept expanding. Metal products (50.5 points) and printing & recorded media (50.2 points) lifted out of contraction. The textiles & clothing products (48.9 points) and machinery & equipment (44.8 points) sub-sectors both contracted for the month.
- Comments from manufacturers in June indicate continuing uncertainty surrounding the impending Federal Election. Higher exports and import replacements are lifting activity, assisted by the lower Australian dollar, but strong competition from overseas businesses is curbing growth and putting pressure on selling prices. Some weak spots in the economy and a lack of capital expenditure are weighing on activity.



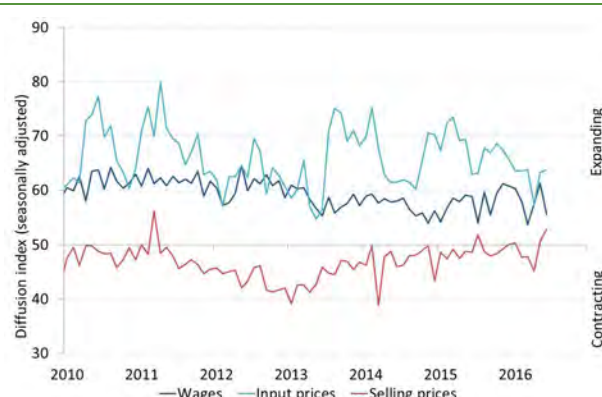
## ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** lifted by 3.5 points in June to 54.4 points, completing twelve months of continuous expansion, the longest run in over a decade.
- The sales sub-index fell 2.2 points but maintained some momentum at 53.7 points. June was the fifth straight month of expansion for this sub-index.
- The stocks sub-index (inventory) fell 5.5 points, easing to stable conditions (50.6 points).
- The exports sub-index edged lower by 0.7 points in June to reach stable conditions (50.5 points). The exports sub-index has been above 50 points for ten months now.
- The sub-index for deliveries of supplier inputs fell by 3.4 points in June and slipped into contraction (48.9 points) following four months of expansion.
- The employment sub-index increased by 2.3 points in June but remained in contraction, at 47.9 points. Recent labour force statistics by the ABS reveal some mild increases in manufacturing employment in early 2016 (+1.1% growth in the May quarter), corresponding to some mildly positive results in the sub-index around this time. These data point to conditions remaining subdued for manufacturing employment.
- Capacity utilisation rates\* fell slightly to 75.3% in June (from 75.4%) but remain elevated.



## WAGES AND PRICES SUB-INDEXES

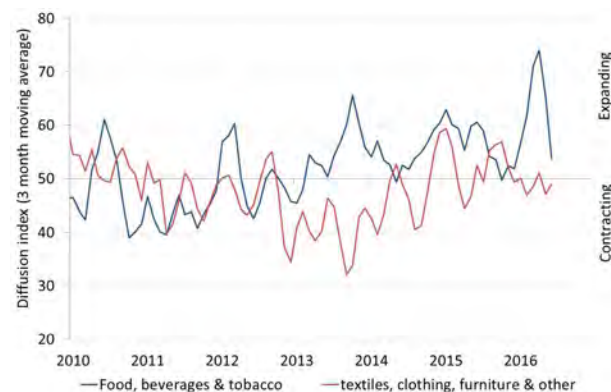
- The **Australian PMI®** input prices sub-index\* edged higher by 0.6 points in June and remains elevated at 63.8 points. Continued high input prices are contributing to compressed margins, as seen in many manufacturers comments in recent months.
- The wages sub-index\* of the **Australian PMI®** dropped by 5.8 points to 55.5 points in June. Wage growth continues to be volatile into 2016.
- The manufacturing selling prices sub-index\* of the **Australian PMI®** expanded in June, increasing 2.4 points to 53.0 points. This is the strongest result (and first clear expansion) seen since March 2011.



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

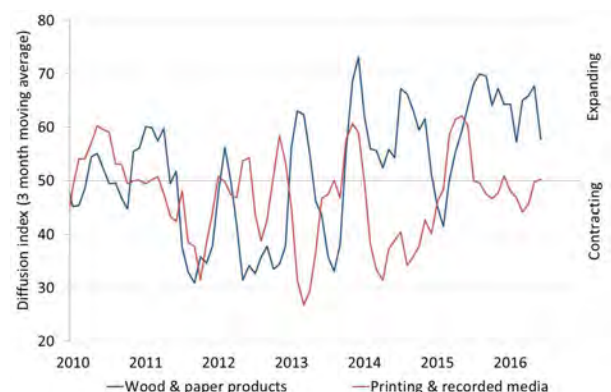
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, plummeted by 11.6 points in June, yet the sub-sector remains in expansion (53.7 points). The very strong growth seen in early 2016 now looks to be cooling. Respondents in the **Australian PMI®** noted that some excess supply in markets are suppressing prices and dampening activity. Respondents also noted a build-up in inventories and some weakness in sales for the month.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index improved a little in June, increasing 1.8 points to mild contractionary conditions (48.9 points). This sub-sector continues to tread water and is struggling to move out of contraction.



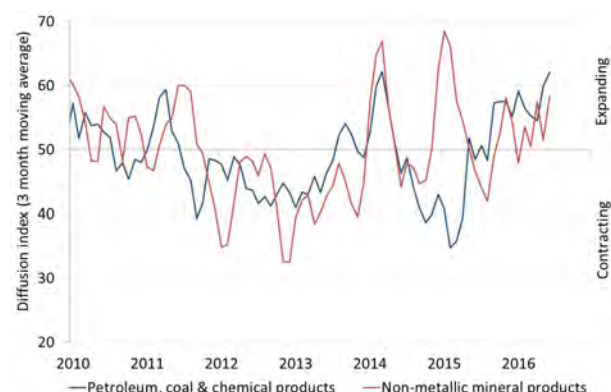
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The relatively small **wood and paper products** sub-sector fell 10.0 points in June, but remained in firm expansion at 57.7 points. June marks the sixteenth consecutive month of expansion for the sub-sector. Wood and paper sub-sector respondents in the **Australian PMI®** reported continued high levels of sales for the month as a key reason for expansion. May saw strong activity in building up of inventories and this now looks to have stopped, helping explain the 10.0 point fall in June. This sub-sector is continuing to benefit from elevated residential building activity (for wood products) and continued growth in the food sector (for paper packaging).
- The very small **printing and recorded media** sub-sector increased by 0.5 points in June, to reach 50.2 points, and continues the stable conditions seen in May. 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 strengthened again in June, increasing 2.2 points to a strong 62.1 points. June marks the tenth month of expansion in a row for the sub-sector. 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®** noted an increase in new orders, sales and deliveries as key growth drivers for the month. The positive forward looking results are encouraging for the months ahead.
- The **non-metallic mineral products** sub-sector's index jumped by 6.8 points to 58.3 points in June, continuing the positive (albeit volatile) trend seen in 2016. This sub-sector produces building products such as tiles, bricks, cement and glass, with demand coming from residential builders and engineering construction. It also makes products for the local automotive supply chain (e.g. glass car parts). Respondents in the **Australian PMI®** noted strength in most sub-indexes in June, although forward looking indicators were less positive, possibly flagging softer growth ahead.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products** sub-sector's index lifted out of contraction in June, increasing 6.4 points to reach a stable 50.4 points. This encouraging result breaks a long period of contraction (since September 2010). Respondents in the **Australian PMI®** cited better market conditions and reported stronger new orders and exports as key drivers for the recovery in June.
- The large **machinery and equipment** sub-sector lost ground in June, falling 5.8 points to 44.8 points, after a promising stabilisation in previous months. Respondents from this sub-sector in the **Australian PMI®** reported soft demand and lack of capital expenditure (possibly election related) weighing on the sector in June.



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>51.8</b>	<b>+0.8</b>	<b>52.3</b>	<b>Exports</b>	50.5	-0.7	53.1
<b>Production</b>	54.4	+3.5	54.0	<b>Sales</b>	53.7	-2.2	52.9
<b>New Orders</b>	54.1	+1.9	53.3	<b>Input Prices</b>	63.8	+0.6	64.5
<b>Employment</b>	47.9	+2.3	49.4	<b>Selling Prices</b>	53.0	+2.4	49.2
<b>Inventories (stocks)</b>	50.6	-5.5	51.8	<b>Average Wages</b>	55.5	-5.8	58.0
<b>Supplier Deliveries</b>	48.9	-3.4	51.9	<b>Cap. Utilisation (%)</b>	75.3	-0.1	73.4

\* 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 June 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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