AUSTRALIAN PMI

PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN INDUSTRY GROUP

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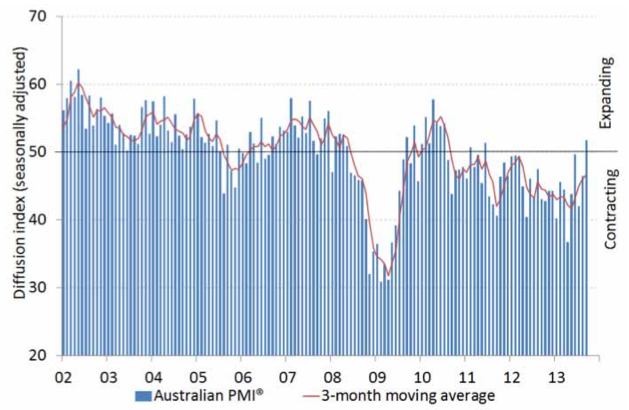
MANUFACTURING EXPANDS IN SEPTEMBER

Australian PMI®	USA Flash PMI	Eurozone PMI	UK CIPS PMI	Japan JMMA PMI	China Flash PMI
Sep 2013: **51.7** ↑	Sep 2013: **52.8** ↓	Aug 2013: **51.4** ↑	Aug 2013: **57.2** ↑	Aug 2013: **52.2** ↑	Sep 2013: **51.2** ↑

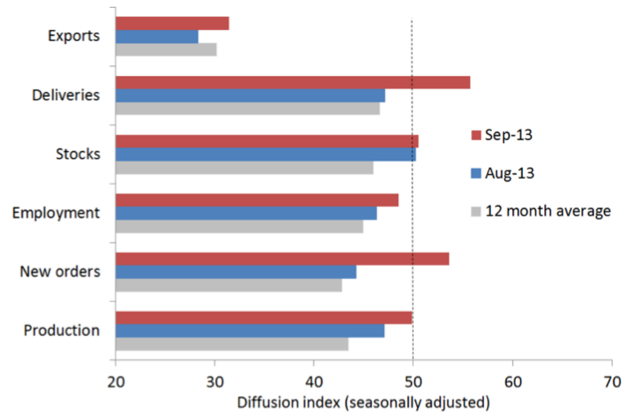
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** improved by 5.3 points in September, rising to 51.7 points. This was the first month since June 2011 that the **Australian PMI®** has moved above 50 points, indicating mild expansion across the manufacturing industry (50 points marks the separation between expansion and contraction in the **Australian PMI®**).
- This month's move into expansion was driven by strong rises in the sub-indexes for new orders and supplier deliveries, both of which moved well above 50 points. Inventories were broadly stable at just over 50 points. Production and employment improved this month, but remained just below the 50-point level that separates expansion from contraction.
- Across the sub-sectors, expansion is strongest in the food, beverages and tobacco sub-sector, with mild expansion also evident in some of the smaller sub-sectors. The metal products and machinery and equipment sub-sectors continue to show severe contraction.
- Comments from survey participants indicate that the benefits of: (1) a lower Australian dollar; (2) lower interest rates; and (3) the recent Federal election are showing through in improved sentiment and actual orders from Australian-based customers. Businesses said this improvement is so far weak but still noticeable. They also noted however, that new orders are still declining from mining industry customers and from the public sector.
- The lower Australian dollar is still mainly benefiting local orders (i.e. import replacement) rather than outright growth in exports. Businesses noted that export markets remain tough.



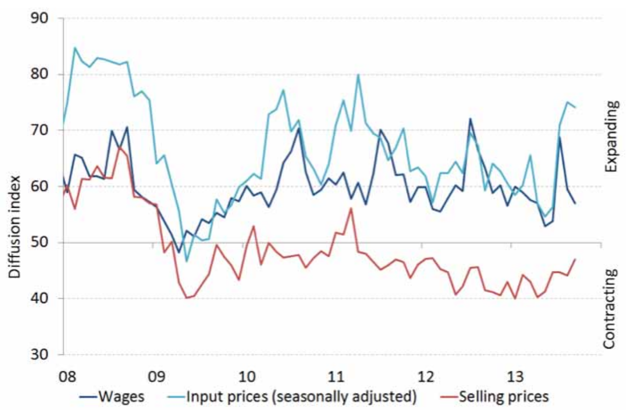
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** improved by 2.8 points to 49.9 points in September, suggesting production levels were stable, relative to the previous month. This was the highest production sub-index reading since June, when it moved up to 50.3 points.
- New orders jumped 9.3 points higher in September, to 53.6 points. This was the first expansionary reading (above 50 points) since August 2012 (50.5 points) and the highest since July 2010 (56.1 points). Some businesses suggested this was partly a 'catch-up' in orders due to ordering decisions being delayed prior to the Federal election this year.
- Supplier deliveries also expanded relatively strongly, with an index reading of 55.7 points. This was the first time deliveries had expanded since February 2012 (52.3 points).
- The employment sub-index improved, but remained mildly contractionary at 48.5 points. This was the highest reading for this sub-index since March 2013 (48.7 points).
- The exports sub-index improved, but at 31.4 points it remains extremely weak.
- Businesses' utilisation of their existing capacity increased to 72.8% in September, which was the highest level since February 2013. Capacity utilisation is being affected at present by changes in production levels but also by changes in total capacity, as some businesses shrink their workforces and/or production facilities to 'right-size' in relation to ongoing demand levels.



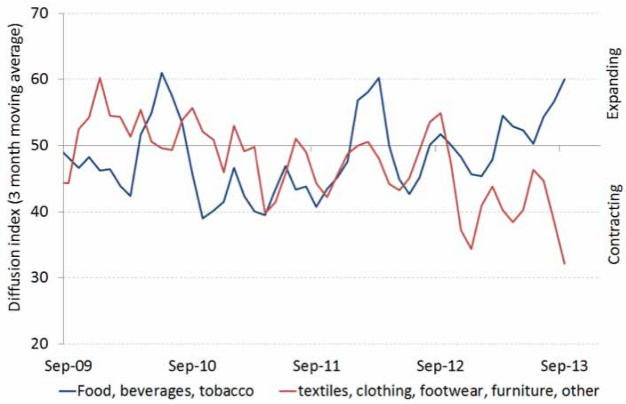
WAGES AND PRICES SUB-INDEXES

- The gap between growing wages and input costs, versus declining selling prices, narrowed in September, suggesting the cost squeeze on manufacturers is not worsening at quite the same pace as it had earlier in 2013.
- Most manufacturing businesses, however, remain unable to pass on their higher costs in the form of actual price rises for their output. The selling prices index improved in September, reaching 46.9 points (its best reading since February 2012), but it has remained below 50 points (indicating price falls) in every month since March 2011.
- Input cost growth moderated from last month's high (75.1 points), falling 0.9 points to 74.2 points. This index remains well above its long-run average however, indicating that input price increases remain well above normal ranges.
- Wages growth continued to moderate after July's annual spike. It fell to 57.0 points, confirming that wages growth is moderating in line with weak labour demand and a more moderate inflation environment.



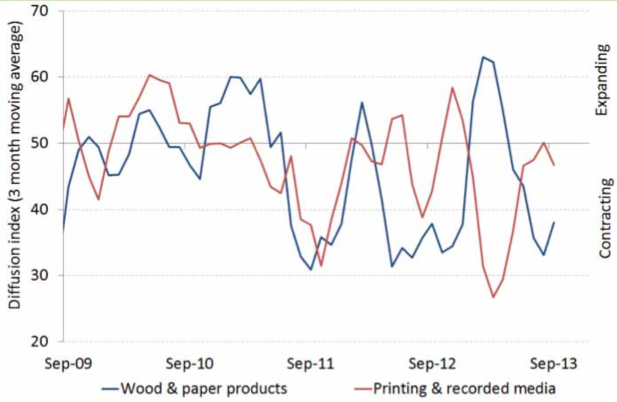
FOOD & BEVERAGES; TEXTILES,CLOTHING, FURNITURE & OTHER*

- In three-month moving average terms, the **food, beverages and tobacco sub-sector** has been expanding (readings above 50 points) since March this year. The index for this sub-sector has improved over the past three months, reaching 60.1 points in September. This was its highest reading since March 2012 (60.3 points, three-month moving average).
- The expansion in the food, beverages and tobacco sector is mainly evident in production, new orders and supplier deliveries, all of which have expanded well in recent months. It is less evident in employment, which has expanded only sporadically this year.
- In three-month moving average terms, the **textiles, clothing, footwear, furniture and other manufacturing sub-sector** has been contracting (readings below 50 points) since September last year. The contraction over the past three months has been especially sharp, with the index for this sub-sector falling to 32.1 points in September, its lowest level since May 2009 (the commencement of the current sub-sector series). Comments from businesses suggest this reflects particular challenges in furniture manufacturing, which is struggling against a new wave of imported product.



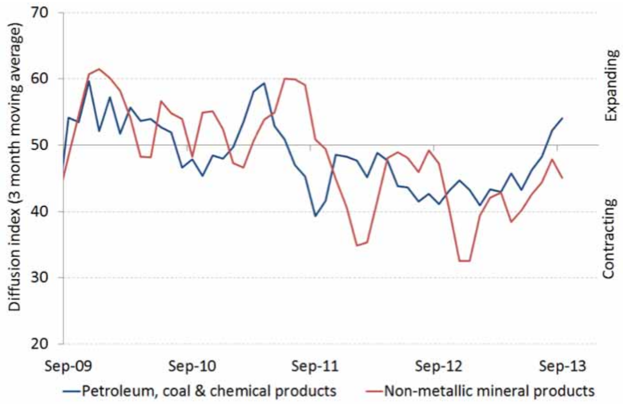
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** enjoyed a brief period of expansion in the first half of 2013 but this has not been sustained into the second half of the year (in three-month moving average terms). This sub-sector feeds into the supply chains of food and groceries (packaging), building products (building timbers) and furniture (wood products), and is adversely affected by declines in demand for those sub-sectors. Businesses making wood products reported that their production has been disrupted of late by the closure of a number of timber mills, which has cut off their supplies of raw timber.
- The **printing and recorded media sub-sector** index improved over the past six months (in three-month moving average terms) after hitting a low of 26.8 points in March 2013 (which was the lowest since this sub-sector series commenced in May 2009 and almost equal to 26.6 points recorded for its predecessor the 'paper, printing and publishing sub-sector' in February 2009). This sub-sector has contracted in all but one month of 2013 after recording a brief growth spike in the last quarter of 2012 (three-month moving averages).



COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** index improved to 54.1 points in September, which was a second consecutive month of expansion and the highest level for this index since April 2011 (59.4 points, three-month moving average).
- This sub-sector produces a diverse range of products and seems to be benefiting from a recent lift in orders from food-related customers and from the building industry.
- The **non-metallic mineral products sub-sector** index declined to 45.1 points in September, after moving closer towards expansion in August (in three-month moving average terms). This sub-sector has been indicating contraction since September 2011 (50.9 points, three-month moving average), largely because it produces mainly building materials (bricks, glass, cement, tiles) and has been hit by the downturn in residential and commercial construction in Australia over the past three years. Businesses in this sector have also noted a rise in import penetration in building materials due to the elevated Australian dollar and the increased interest in the Australian market from overseas competitors. At the same time, export opportunities have been limited by the same factors.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The index for the large **metal products sub-sector** improved to 32.5 points in September, but it remains close to the historically low levels seen in recent months. This sub-sector has been indicating contraction, and at a sporadically worsening rate, since August 2010 (51.6 points, three-month moving average). All activity sub-indexes for this sub-sector remain in the low thirties, indicating severe shrinkage. This includes the new orders sub-index which has not yet shown the marked improvement seen in some other sub-sectors.
- The index for the large **machinery and equipment sub-sector** declined to 39.7 points in September, after readings over 40 points in the previous three months (three-month moving averages). This sub-sector has been indicating contraction since January 2012 (50.4 points, three-month moving average). Businesses report there is still a strong preference among many customers to repair or modify existing machinery rather than to replace it, which is dampening demand for new machinery but providing a subtle boost to those who specialise in supplying parts and maintenance services. As in other sub-sectors, the weaker Australian dollar is yet to translate into a meaningful lift in export orders.

Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	**51.7**	**+5.3**	**44.3**	**Exports**	31.4	+3.1	30.2
Production	49.9	+2.8	43.5	**Input Prices**	74.2	-0.9	63.3
New Orders	53.6	+9.3	42.8	**Selling Prices (unadj.)**	46.9	+2.8	42.8
Employment	48.5	+2.2	45.0	**Average Wages (unadj.)**	57.0	-2.5	58.4
Inventories (stocks)	50.5	+0.3	46.0	**Capacity Utilisation (%) (unadj.)**	72.8	+0.9	71.3
Supplier Deliveries	55.7	+8.6	46.7				

* 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.
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