



MANUFACTURING REACHES FOR RECOVERY IN OCT

Australian PMI®
Oct 2013: 53.2 ↑

USA Flash PMI
Oct 2013: 51.1 ↓

Eurozone PMI
Sep 2013: 51.1 ↓

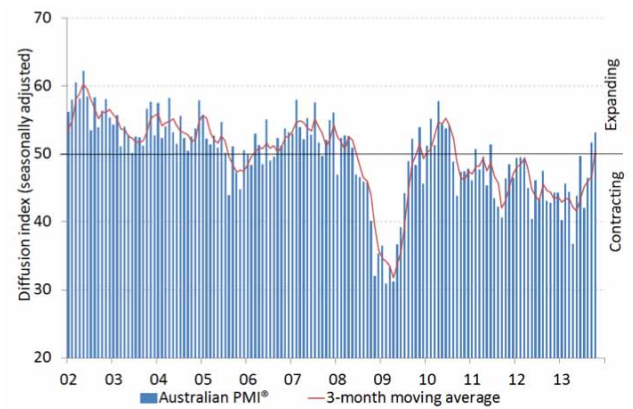
UK CIPS PMI
Sep 2013: 56.7 ↓

Japan JMMA PMI
Sep 2013: 52.5 ↑

China Flash PMI
Oct 2013: 50.9 ↑

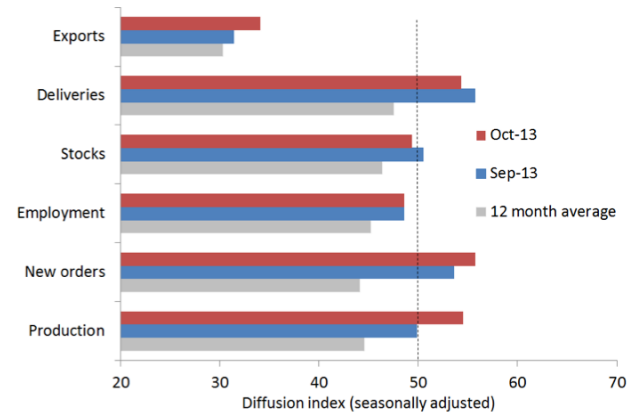
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) improved by 1.5 points in October, rising to 53.2 points. This was the second consecutive month 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 overall expansion was driven by stronger readings (with levels above 50 points) for the new orders and production sub-indexes. The sub-index for supplier deliveries also remained above 50 points, albeit at a slightly weaker level than in September. The employment sub-index continues to suggest contraction, at 48.6 points.
- Across the sub-sectors, expansion was again strongest in the food, beverages and tobacco sub-sector, with mild expansion evident in some of the smaller sub-sectors. The metal products and machinery and equipment sub-sectors continue to show contraction.
- Comments from survey participants indicate that although new orders are improving, they are not strengthening for every business and they are not strengthening by a lot. So far, businesses see this improvement as a welcome stabilisation or 'catch-up' period for local orders that were delayed earlier in the year, rather than a new phase of business growth.
- Businesses note that export markets remain tough. The exports sub-index showed some improvement but is still at very low levels, indicating ongoing export contraction.



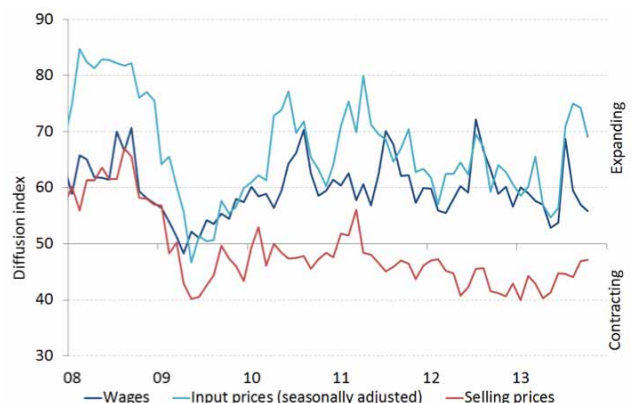
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** improved by 4.7 points to 54.5 points in September, indicating production levels are up, relative to the previous month. This was the highest production sub-index reading since April 2011 (54.7 points), after a very protracted period of production sub-index readings around and mostly under 50 points.
- New orders jumped a further 2.1 points higher in September, to 55.7 points. This was the second consecutive month in expansion (above 50 points) and the highest monthly reading since July 2010 (56.1 points). Comments from businesses suggest this is partly a 'catch-up' in orders due to delayed spending decisions among local customers earlier this year.
- Supplier deliveries also expanded for a second consecutive month in September, albeit at a reduced index reading of 54.4 points. Stocks contracted very slightly (49.3 points).
- Employment (usually a 'lagging indicator') remained mildly contractionary at 48.6 points.
- The exports sub-index improved from this year's slump (it hit an all-time low of 24.5 points in April) for a fourth consecutive month, but remains extremely weak at 34.1 points.
- Manufacturers' capacity utilisation rate was broadly stable, with 72.5% of total capacity in use in September.



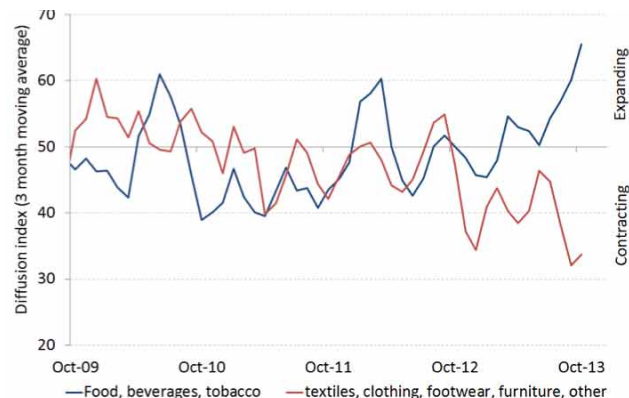
WAGES AND PRICES SUB-INDEXES

- The gap between growing wages and input costs, versus declining selling prices, narrowed further in October, suggesting the cost squeeze on manufacturers may be easing, after a recent peak in input price rises caused by the flow-on effects of the lower dollar.
- The selling prices index improved marginally in October, reaching 47.2 points, but it has remained below 50 points (indicating price falls) in every month since March 2011.
- Input cost growth moderated further from its recent spike, falling 5.1 points to 69.1 points. This index is still relatively elevated, indicating ongoing strong increases in input pricing.
- Wages growth continued to moderate after July's annual spike. The wages sub-index in the **Australian PMI®** fell to 55.8 points in October, confirming that wages growth is moderating in response to weak labour demand and a more moderate inflation environment in the second half of 2013. This is in line with the latest consumer price index (CPI) inflation data, which slowed to 2.2% p.a. in September 2013.



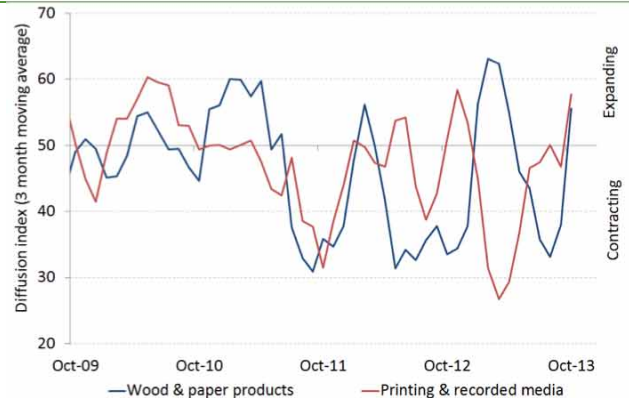
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** has been expanding (readings above 50 points) since March this year, and at a strengthening pace (three month moving averages). The index for this sub-sector reached 65.6 points in October, well above any other sub-sector and its highest level since Dec 2004 (66 points, three month moving average).
- The expansion in the food, beverages and tobacco sector remains mainly evident in new orders, production and supplier deliveries, which have expanded well in recent months. It is less evident in employment, which has expanded only sporadically and weakly this year.
- The **textiles, clothing, footwear, furniture and other manufacturing sub-sector** has been contracting (readings below 50 points) since September last year (three month moving averages). The contraction moderated in October, with the index for this sub-sector improving to 38.0 points, after 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 new local orders remain slow and import competition remains fierce.



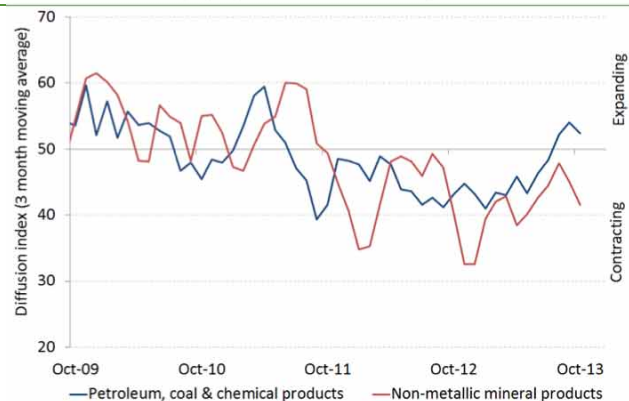
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** moved back into expansion in October, with an index reading of 55.5 points (three month moving average). This was the first month of expansion since April and the highest sub-sector index reading since March. 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 changes in demand from those sub-sectors. It is also facing increasing import competition in some key segments, plus recent supply disruptions from timber processors.
- The **printing and recorded media sub-sector** index jumped 10.9 points higher to 55.5 points in October (in three month moving average terms). This sub-sector has sporadically improved over the past six months (in three month moving averages) after hitting a low point of 26.8 points in March 2013 (which was the lowest since this sub-sector series commenced in May 2009, in three month moving averages).



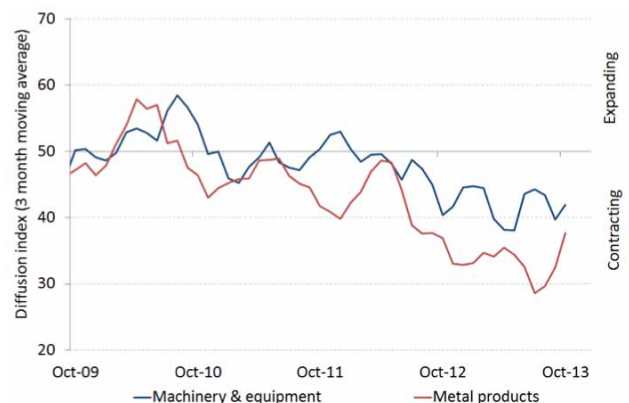
COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** index weakened to 52.4 points in October, but has remained at or above 50 points for a third consecutive month of expansion (three month moving average). This sub-sector produces a wide range of products, from basic petrochemicals to pharmaceuticals and cosmetics. It feeds into a number of supply chains and is affected by demand fluctuations across the economy.
- The **non-metallic mineral products sub-sector** index declined to 41.6 points in October, moving deeper into contraction (three month moving average). This sub-sector has been in contraction since September 2011 (under 50 points, three month moving average), largely because key products such as bricks, glass, cement, and tiles have been hit by the downturn in residential and commercial construction over the past three years. In recent months, businesses in this sector have also noted a rise in import penetration for building materials such as cabinets, doors and windows, due to the elevated Australian dollar.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The index for the large **metal products sub-sector** improved to 37.7 points in October, its best reading since September 2012 (three month moving averages). This sub-sector has been indicating continuous contraction since August 2010 (51.6 points, three month moving average). All activity sub-indexes (production, new orders, employment, and deliveries) for metal products improved in October but remained below 50 points. The imports sub-index for metals remains below 20 points, signalling steep falls in exports.
- The index for the large **machinery and equipment sub-sector** improved to 41.9 points in October (three month moving averages). This sub-sector's index has been in contraction since January 2012 (under 50 points, three month moving averages). As in the metals sub-sector, all activity sub-indexes (production, new orders, employment and deliveries) for machinery and equipment improved in October but remained below 50 points. Recovery in production for this sub-sector still seems some way off because new orders are yet to move to stabilisation or expansion (readings remain well below 50 points) and the exports sub-index remains exceedingly weak at around 30 points (three month moving average).



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	53.2	+1.5	45.2	Exports	34.1	+2.6	30.3
Production	54.5	+4.7	44.6	Input Prices	69.1	-5.1	63.7
New Orders	55.7	+2.1	44.1	Selling Prices (unadj.)	47.2	+0.2	43.3
Employment	48.6	+0.1	45.2	Average Wages (unadj.)	55.8	-1.2	58.2
Inventories (stocks)	49.3	-1.2	46.3	Capacity Utilisation (%)	72.5	-0.3	71.3
Supplier Deliveries	54.4	-1.4	47.5	(unadj.)			

* 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.aiigroup.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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