AUSTRALIAN
PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN INDUSTRY GROUP

MEDIA CONTACT
Tony Melville
Australian Industry Group
Tel: 02 6233 0716

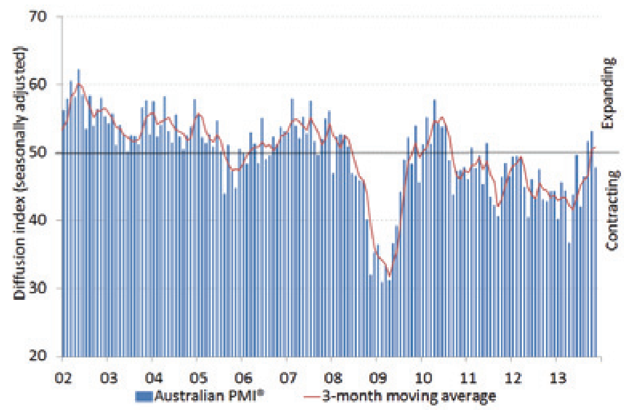
NOVEMBER 2013

MANUFACTURING SLIPS IN NOVEMBER

Australian PMI®	USA Flash PMI	Eurozone PMI	UK CIPS PMI	Japan JMMA PMI	China Flash PMI
Nov 2013: **47.7** ↓	Nov 2013: **54.3** ↑	Oct 2013: **51.3** ↑	Oct 2013: **56.0** ↓	Oct 2013: **54.2** ↑	Nov 2013: **50.4** ↓

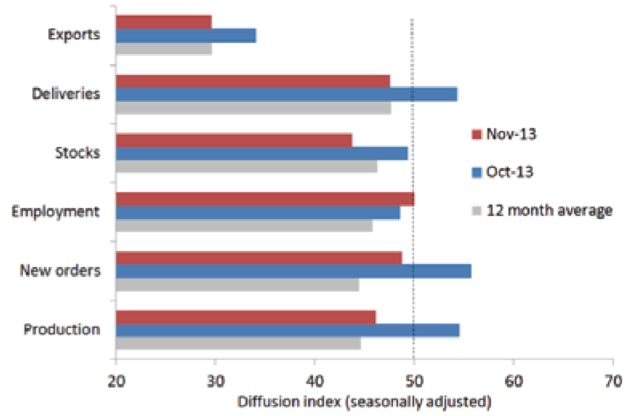
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** fell by 5.4 points in November, to 47.7 points (seasonally adjusted).
- This fall interrupted the promising run of mild expansion in the **Australian PMI®** over the past two months (50 points marks the separation between expansion and contraction in the **Australian PMI®**) and took the index back to its pre-election levels. The **Australian PMI®** is again indicating varying degrees of contraction across the manufacturing sectors.
- This month, contraction was evident in the sub-indexes for production, new orders and supplier deliveries, which all fell below 50 points again, after a promising lift last month.
- The employment sub-index moved up 1.5 points to 50.1 points, indicating employment numbers are stable. This was the highest reading in this sub-index since Oct 2011.
- Across the sub-sectors, index changes were highly variable (even in three month moving averages). Growth in food and beverages manufacturing slowed while expansion rates improved in some of the smaller sub-sectors. The non-metallic mineral products, metal products and machinery and equipment sub-sectors continue to show contraction.
- Comments from survey participants indicate that the mild lift in local new orders that was apparent immediately after the September federal election is already drying up, as mining, government, maintenance and R&D spending slows. The relatively high Australian dollar and fierce import competition continue to take their toll, as many businesses struggle to maintain market share in an environment of generally weak demand for goods.
- Export markets remain tough, with the exports sub-index dropping under 30 points again.



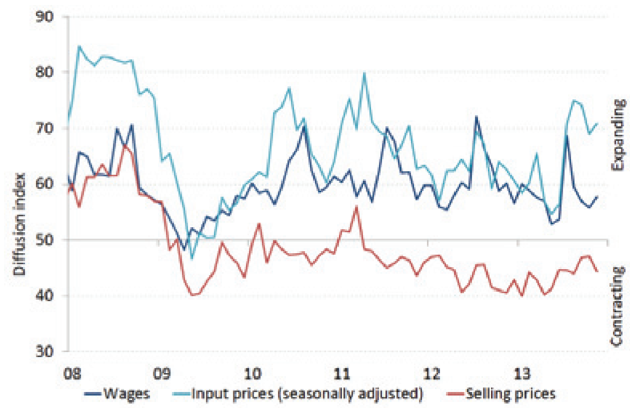
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** fell by 8.4 points to 46.2 points in November, after just one month of expansion (54.5 points in October, seasonally adjusted).
- New orders fell 6.9 points, taking this sub-index back under 50 points after two consecutive months of mild expansion (above 50 points). Comments from businesses suggest the post-election 'catch-up' in local orders is already slowing.
- Supplier deliveries also reversed the gains made over the previous two months, with this sub-index falling by 6.8 points to 47.6 points, indicating a further contraction in deliveries.
- Stocks contracted at a faster rate, with this sub-index dropping 5.5 points to 43.8 points.
- The employment sub-index moved up 1.5 points to 50.1 points, indicating employment numbers (usually a lagging indicator of activity) were stable. This was the highest reading in this sub-index since October 2011 (50.8 points) and before that, June 2010 (53.5 points).
- The exports sub-index fell 4.4 points to 29.7 points, ending a four month run of improvement. The exports sub-index remains at extremely low levels, with participants indicating the high level of the dollar remains a major impediment to improved export orders. Competition with cut-price imports in a flat local market is also a major problem.
- Manufacturers' capacity utilisation rate improved to 73.2% of total capacity available.



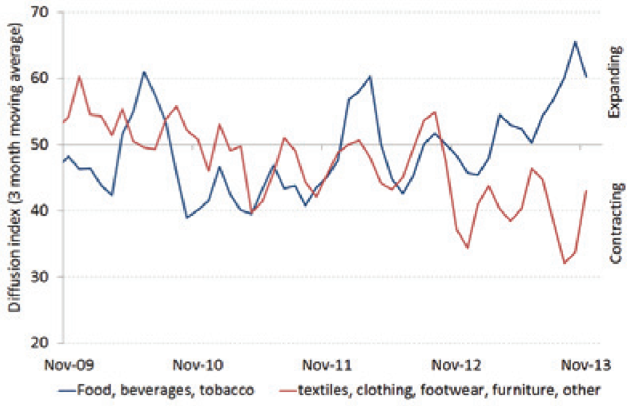
WAGES AND PRICES SUB-INDEXES

- The gap between growing wages and input costs, versus declining selling prices, continued in November. This gap indicates a serious profit squeeze across manufacturing and has been a feature of the **Australian PMI®** since early in 2009. It echoes the decline in manufacturing profits and profitability (apparent in the ABS profits data) over this period.
- The selling prices index declined again in November, falling 2.8 points to 44.4 points, a touch above its recent average (43.7 points over the last 12 months).
- Input cost growth picked up pace again after moderating from its recent spike in August. This index remains relatively elevated, indicating ongoing strong increases in input prices.
- Wages growth also picked up again in November (to 57.8 points), after moderating over the previous three months, but remains just below its recent average (58.0 points over the past 12 months). Slower wage rises are to be expected in this last quarter of 2013, in line with the latest consumer price index (CPI) inflation data, which slowed to 2.2% p.a. in September 2013, and in line with weaker national labour demand. ABS labour market data showed just 0.8% p.a. growth in total employment in October and the loss of full-time jobs in 10 of the past 12 months (60,000 fewer full time jobs in October than a year earlier).



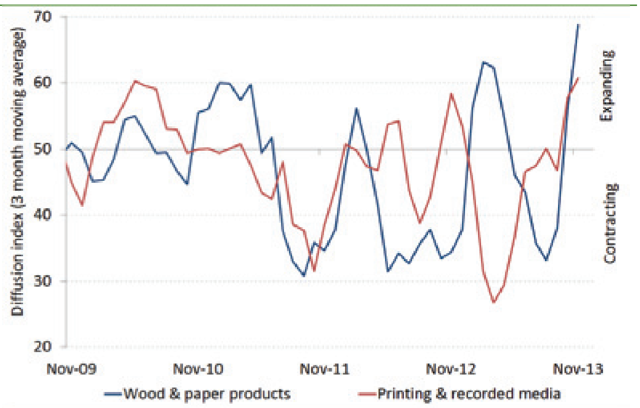
FOOD & BEVERAGES; TEXTILES,CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** has expanded (readings above 50 points) in each month since March this year. The index for this sub-sector reached 65.6 points in October, its highest level since Dec 2004 (66 points,) but it moderated back to 60.3 points in November (three month moving averages). The expansion in the food, beverages and tobacco sub-sector remains mainly evident in new orders and supplier deliveries, which continue to expand strongly in November. Production growth moderated, but still remained positive in November. The employment index in this sub-sector has been volatile from month to month, suggesting sporadic, weak growth in jobs at best 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 November, with the index for this sub-sector improving to 43.0 points. Sub-indexes and comments from businesses in this sub-sector suggest new local orders have improved, but import competition remains fierce and exports are negligible (with many businesses indicating no exports or falling exports).



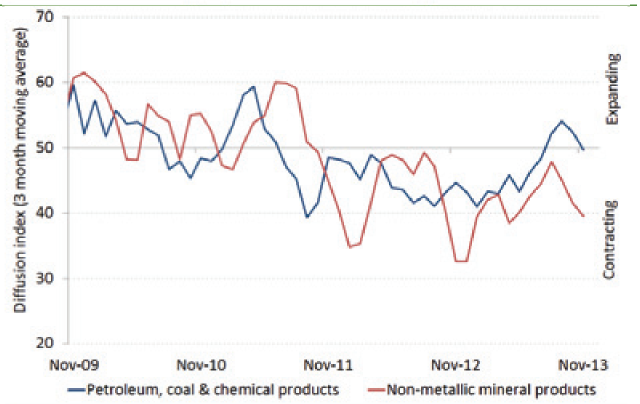
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for a second consecutive month in November, with an index reading of 68.7 points (three month moving average). This sub-sector feeds into the supply chains of food and groceries (packaging), building products (building timbers) and furniture (wood products), and is directly affected by changes in demand from those sub-sectors. It is currently seeing a lift in orders from wood products associated with the building industry, as construction activity picks up pace.
- The small **printing and recorded media sub-sector** continued to show signs of recovery in November after a deep but sporadic contraction. This industry is still in the throes of adjusting to radical technology changes, as well as facing increasing imports of printed products. The index for this sub-sector jumped another 3 points to 60.7 points in November (three month moving average).This is the highest reading achieved by this sub-sector since the current series commenced in May 2009 (it came close at 60.3 points in May 2010) and close to the highest points reached by its predecessor category of 'paper and printing'.



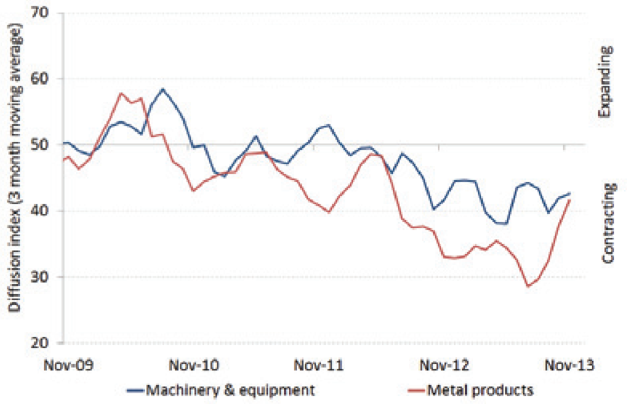
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** index fell to 49.7 points in November, indicating a broadly stable level of activity after three consecutive months of expansion (readings above 50 points, three month moving average). This sub-sector produces an extremely wide range of products, from basic petrochemicals to pharmaceuticals and cosmetics. It is affected by demand fluctuations across the economy.
- The **non-metallic mineral products sub-sector** index declined to 39.5 points in November, moving deeper into contraction with the lowest index reading since April (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. Businesses are also contending with a rise in import penetration for building materials and components due to the elevated Australian dollar.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The index for the large **metal products sub-sector** improved to 41.7 points in November. This was its first reading above 40 points and its best reading since June 2012 (44.1 points, three month moving averages). This sub-sector index has been in continuous contraction since August 2010 (below 50 points, three month moving average). This sector continues to struggle against weak demand and strong import competition due to the high dollar.
- The index for the large **machinery and equipment sub-sector** improved to 42.7 points in November (three month moving averages). This sub-sector's index has been in contraction since January 2012 (under 50 points, three month moving averages).
- In both the metal products and machinery and equipment sub-sectors, a recovery in production (index readings above 50 points) still seems some way off, because new orders are yet to expand (readings remain well below 50 points) and their exports sub-indexes remain exceedingly weak, at around 30 points for the machinery and equipment sub-sector and under 20 points for metal products (three month moving averages). Stock levels (inventories) are fairly stable in the machinery and equipment sub-sector (sub-index values around 50 points) but are being wound down in metal products (around 30 points).



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	**47.7**	**-5.4**	**45.5**	**Exports**	29.7	-4.4	29.7
Production	46.2	-8.4	44.7	**Input Prices**	70.9	+1.9	64.4
New Orders	48.8	-6.9	44.5	**Selling Prices (unadj.)**	44.4	-2.8	43.7
Employment	50.1	+1.5	45.8	**Average Wages (unadj.)**	57.8	+2.0	58.0
Inventories (stocks)	43.8	-5.5	46.4	**Capacity Utilisation (%) (unadj.)**	73.2	+0.8	71.3
Supplier Deliveries	47.6	-6.8	47.7				

* 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.
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.**