

MANUFACTURING CONTRACTS AGAIN IN MARCH

Australian PMI®
 Mar 2014: **47.9** ↓

USA Flash PMI
 Mar 2014: **55.5** ↓

Eurozone Flash PMI
 Mar 2014: **53.0** ↓

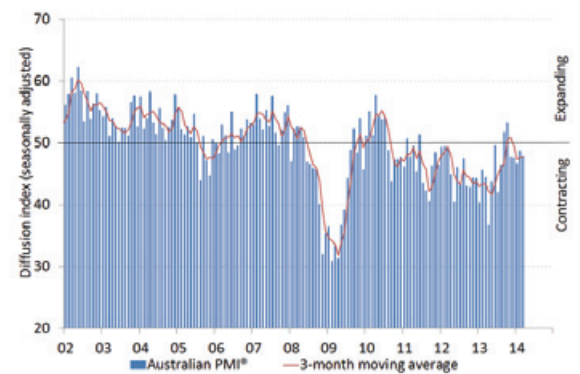
UK CIPS PMI
 Feb 2014: **56.9** ↑

Japan JMMA PMI
 Feb 2014: **55.5** ↑

China Flash PMI
 Mar 2014: **48.1** ↓

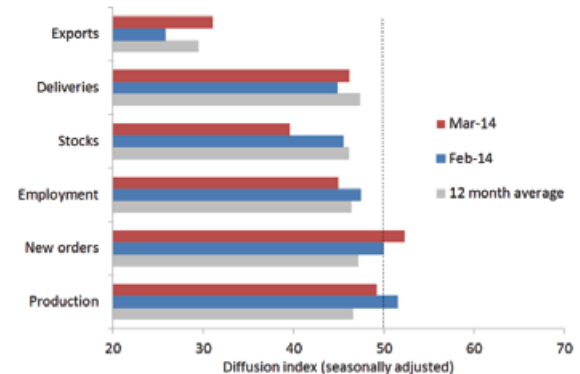
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined by 0.7 points in March, to 47.9 points (seasonally adjusted). The **Australian PMI®** has signalled contraction in the manufacturing industry since November 2013 (readings below 50 points indicate contraction).
- This month the production sub-index of the **Australian PMI®** fell back below 50 points, following a brief expansion (i.e. above 50 points) in February. The new orders sub-index however, moved higher in March to 52.3 points, signalling the first expansion in orders since October 2013. The sub-indices for employment, stocks and supplier deliveries continued to indicate contraction (readings below 50 points) in March, with the stocks sub-index recording a big decline this month (down 5.9 points to 39.6 points). Export markets remain extremely tough for manufacturers, with the exports sub-index remaining around 30 points in March.
- Manufacturing selling prices fell sharply in March, with this sub-index falling by 11.4 points to just 39.2 points. This followed a brief stabilisation in selling prices in February. Manufacturers' margins remain under significant pressure as input prices continue to rise strongly, although wage growth remains relatively constrained this month.
- Across the manufacturing sub-sectors, four expanded and four contracted in March. The food and beverages sub-sector continued its expansion in March but at its slowest pace since June 2013 (down 3.6 points to 53.4 points, 3 month moving average). The petroleum, coal, chemicals and rubber products (62.2 points) and the non-metallic minerals (66.9 points) sub-sectors expanded for a third month, while the small wood and paper products sub-sector has been expanding since October 2013. The very large metal products and machinery and equipment sub-sectors continued to contract in March (three month moving averages).
- Respondents to the **Australian PMI®** voiced renewed concerns over both the high level and the recent appreciation of the Australian dollar. Manufacturers across almost all sub-sectors noted intensified import competition. This weighed significantly on local demand for their products.



ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** declined by 2.3 points to 49.2 points this month, following an expansion (readings above 50 points) in February. More positively, new orders picked up by 2.3 points to 52.3 points, indicating the first expansion since October 2013.
- Supplier deliveries contracted for a fifth month in March, although this sub-index improved slightly to 46.2 points (up 1.3 points). However, the stocks sub-index fell significantly (down 5.9 points to 39.6 points) to its lowest point since January 2013, signalling a larger run-down of inventories by manufacturers this month.
- Reflecting the ongoing soft conditions, manufacturing employment contracted at its fastest pace since July 2013, with the sub-index falling by 2.4 points to 45.0 points in March. The employment sub-index has been indicating contraction since November 2011, except for a brief stabilisation in November 2013 (50.1 points).
- Domestic manufacturers continue to struggle in export markets. While the exports sub-index recovered somewhat, it remains only just above 30 points this month.
- Manufacturers' capacity utilisation rate declined slightly to 71.0% of total capacity available.



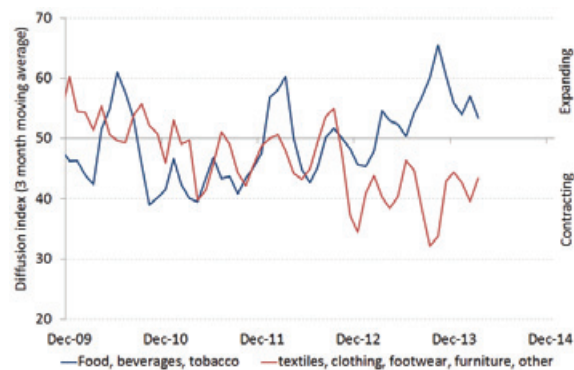
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices fell sharply in March, falling by 11.4 points to a historical low of only 39.2 points. This followed a momentary stabilisation in prices last month. The weakness in selling prices was evident across all the large sub-sectors.
- Although both wages and input costs rose at a slower pace this month, businesses continue to face significant margin pressure, given the large falls in selling prices this month.
- The input prices index eased notably this month (down 7.4 points to 67.7 points), although it continues to indicate significant cost increases for domestic manufacturers.
- The wages sub-index also eased, declining by 2.1 points to 55.2 points. This sub-index suggests that wage growth remains relatively contained in the March quarter. This follows the lowest private sector wage growth since 1997-98 of only 2.5% p.a. in December 2013 (ABS data).



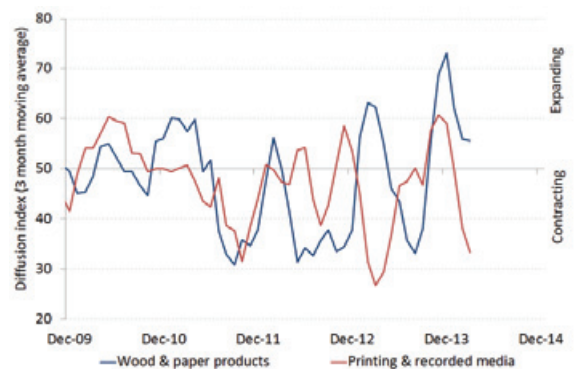
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** expanded again this month (above 50 points, three month moving averages), although the index for this sub-sector decreased by 3.6 points to 53.4 points, signalling the slowest pace of expansion since June 2013. Sub-indexes suggest that conditions have softened in this industry over the past month. A few respondents noted increased competition in March, particularly from imports, as the Australian dollar has appreciated again.
- The **textiles, clothing, footwear, furniture and other manufacturing sub-sector** continued to struggle in March. Although the index for this sub-sector picked up by 3.9 points to 43.5 points (three month moving averages), it remained below 50 points and indicated the 18th month of continuous contraction in this industry. Comments from businesses suggest that conditions remain challenging in this sub-sector and that the recent rise in the Australian dollar is intensifying competition from imports against locally manufactured products.



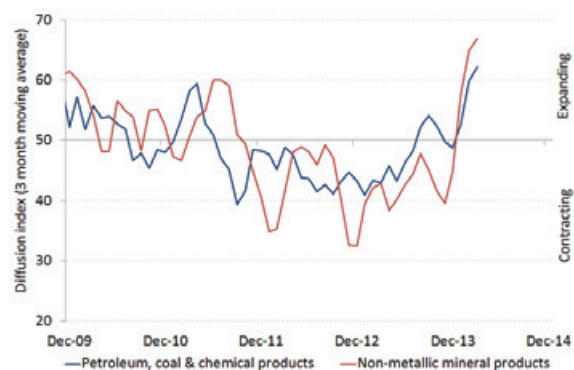
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** was almost unchanged in March, declining by 0.3 points to 55.6 points (three month moving averages). This sub-sector has been expanding since October 2013. Comments from respondents suggest that demand for these products has been strong over the past month, possibly reflecting the resurgence in house construction and building materials in some states.
- Conditions deteriorated further in the small **printing and recorded media sub-sector** in March, with the index falling by another 4.8 points to reach an 11-month low of 33.4 points (three month moving averages). Feedback this month indicated that both the level and the recent appreciation of the Australian dollar has resulted in more intense competition from imported printed products, while radical technological changes continue to affect the industry in general.



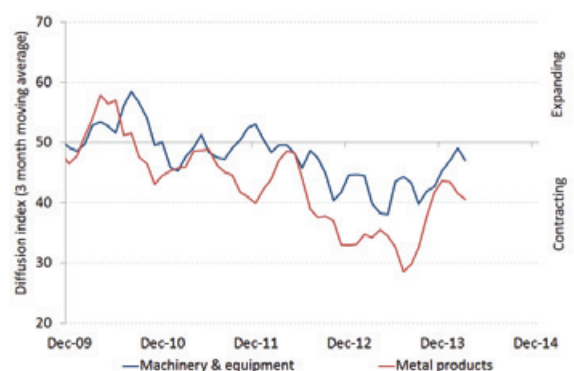
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded (above 50 points) for a third month in March (up 2.3 points to 62.2 points, three month moving averages). Sub-indexes suggest that production, new orders and supplier deliveries continued to expand in this industry this month. This sub-sector is affected by demand fluctuations across the economy as it includes a wide range of products, from basic petrochemicals and adhesives to pharmaceuticals and cosmetics. It may be getting a boost from firming consumer demand for retail goods of late.
- The **non-metallic mineral products sub-sector** also expanded for a third month in March, increasing by 2.1 points to reach 66.9 points (three month moving average). This is the highest level for this sub-index since 2008. This sub-sector mainly produces building materials (e.g. tiles, bricks, cement and glass), so the recent upturn in residential building activity has started to flow into increased demand and activity for this sub-sector. The sub-indexes suggest that new orders have been expanding in this industry since December 2013 (above 50 points), while production has expanded for two months.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index declined by 1 point to 40.5 points in March (three month moving averages). The index for this sub-sector has been moving lower since December 2013, signalling an accelerating pace of contraction over this period. The sub-indexes for metal products, all of which are below 50 points, continue to indicate weak conditions in metal products manufacturing, which has been contracting at an alarming rate since September 2010.
- The index for the large **machinery and equipment sub-sector** also declined in March, falling by 2.0 points to 47.0 points. This signals the 26th consecutive month of contraction in this very important manufacturing sub-sector (three month moving averages). All of the sub-indexes for this sub-sector were below 50 points this month.
- Respondents from both of these large manufacturing sub-sectors expressed concerns over the Australian dollar this month. The level and the recent appreciation of the dollar are reported to have resulted in more intense import competition and have further dampened local demand for Australian-made products.



| Seasonally adjusted | Index this month | Change from last month | 12 month average | | Index this month | Change from last month | 12 month average |
|-----------------------------|------------------|------------------------|------------------|--|------------------|------------------------|------------------|
| Australian PMI® | 47.9 | -0.7 | 46.8 | Exports | 31.1 | 5.2 | 29.5 |
| Production | 49.2 | -2.3 | 46.6 | Input Prices | 67.7 | -7.4 | 67.4 |
| New Orders | 52.3 | 2.3 | 47.2 | Selling Prices (unadj.) | 39.2 | -11.4 | 44.9 |
| Employment | 45.0 | -2.4 | 46.4 | Average Wages (unadj.) | 55.2 | -2.1 | 57.2 |
| Inventories (stocks) | 39.6 | -5.9 | 46.2 | Capacity Utilisation (%) (unadj.) | 71.0 | -0.9 | 71.3 |
| Supplier Deliveries | 46.2 | 1.3 | 47.4 | | | | |

* 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 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>. © The Australian Industry Group, 2014. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.