

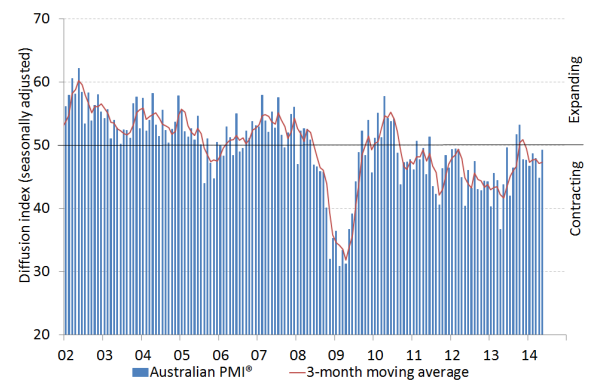


MANUFACTURING CONTRACTS MODESTLY IN MAY

Australian PMI® May 2014: 49.2 ↑	USA Flash PMI May 2014: 56.2 ↑	Eurozone Flash PMI May 2014: 52.5 ↓	UK CIPS PMI Apr 2014: 57.3 ↑	Japan JMMA PMI Apr 2014: 49.4 ↓	China Flash PMI May 2014: 49.7 ↑
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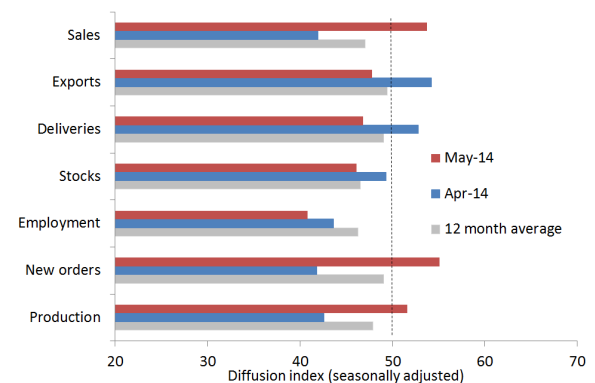
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) moved up by 4.4 points to 49.2 points in May (seasonally adjusted). This signalled the seventh consecutive month of contraction in the manufacturing industry (readings below 50 points indicate contraction). The three-month-moving-average **Australian PMI®** also remained below 50 points (i.e. contraction), at 47.3 points in May.
- Many respondents to the **Australian PMI®** continued to cite challenging business conditions in the manufacturing sector in May. The Federal Budget has reportedly dampened confidence levels and has delayed or lowered business commitment to new expenditure, while the renewed strength in the Australian dollar this year has seen import competition intensify again.
- This month both the production and new orders sub-indexes of the **Australian PMI®** rose above 50 points (i.e. into expansion). The sales sub-index also expanded, following six months of contraction. However, manufacturing employment contracted at a faster pace in May, while the supplier deliveries and stocks sub-indexes both pointed towards contraction this month (i.e. below 50 points). Conditions were subdued in the manufacturing export market, with the sub-index moving down below 50 points (i.e. contraction) in May.
- Across the manufacturing sub-sectors, four expanded and four contracted in May. The petroleum, coal, chemicals and rubber products (51.2 points), non-metallic minerals (50.9 points), and smaller wood and paper products (55.8 points) sub-sectors all expanded (three month moving averages). The textile, clothing and other goods sub-sector expanded for the first time since September 2012 (52.6 points). In contrast, the very large food and beverages sub-sector contracted for the first time since February 2013 (49.3 points). The large metal products and machinery and equipment sub-sectors continued to contract in May.



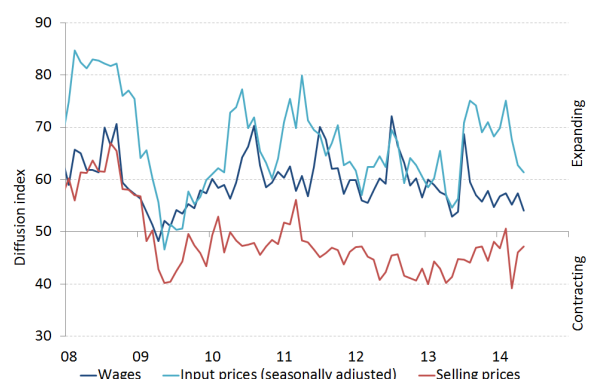
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** rose 9.0 points to 51.6 points in May, pointing towards a mild expansion in production. This followed two months of contraction in production (i.e. below 50 points) in March and April. New orders also expanded in May, with the sub-index rising by 13.3 points to 55.1 points. The sales sub-index improved notably this month, rising by 11.9 points to 53.7 points (i.e. expansion), after six months of contraction.
- Despite the mild increase in production and sales, manufacturing employment contracted at a faster pace this month, with the employment sub-index decreasing by 2.8 points to 40.8 points. This signalled the fastest contraction in manufacturing employment since April 2013.
- Supplier deliveries dropped by 6.0 points to 46.8 points in May, following a brief expansion last month. Manufacturers continued to run down their inventories this month, with the stocks sub-index decreasing by 3.2 points to 46.1 points.
- Manufacturers' capacity utilisation rates remain stable this month, at an average of 70.0% of total capacity available across the manufacturing sector in May.
- Conditions were subdued in manufacturing export markets in May, with the exports sub-index dropping by 6.4 points to 47.8 points (i.e. contraction). *This month, the export sub-index was revised (with revisions back to October 2012) due to a technical amendment. This has pushed up the exports sub-index level over this period, but has not altered either its relative monthly movements or the headline Australian PMI® index.*



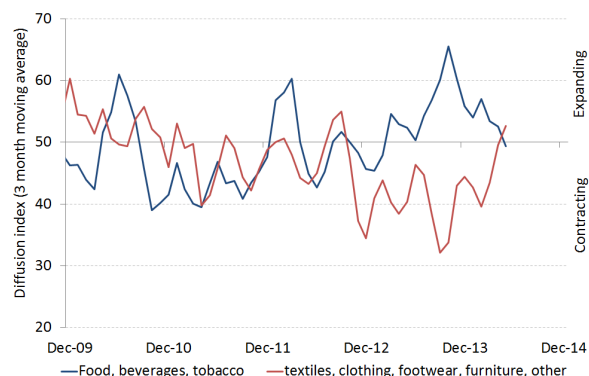
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices contracted again in May, albeit at a slower pace, with the sub-index increasing by 1.1 points to 47.1 points.
- The input prices sub-index moved slightly lower this month, decreasing by 1.4 points to 61.4 points.
- The wages sub-index also decreased by 3.3 points to 54.1 points, suggesting that wage growth remains constrained this month. This result follows private sector wage growth of only 2.6% p.a. in the March quarter of 2014 (3.1% in manufacturing), according to the ABS's latest Wages Price Index. The moderation in wages growth reflects the soft national labour market at present, with ABS data indicating employment growth of only 0.9% p.a. and an unemployment rate of 5.8% in April.
- Nonetheless, the continuing decline in selling prices means that businesses' margins remain under pressure this month, despite more constrained wage and input cost increases. According to the ABS, manufacturing operating profit before tax fell by 24.8% p.a. in 2012-13, while manufacturing earnings before interest, tax, depreciation and amortisation (EBITDA) dropped by 10.8% p.a. over this period.



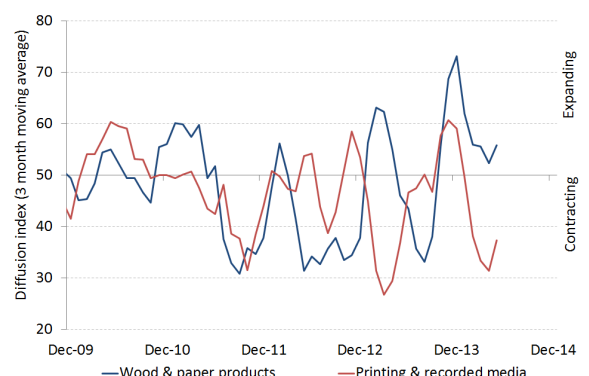
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** contracted (i.e. below 50 points) for the first time since February 2013. The relevant sub-sector index decreased by 3.3 points to 49.3 points in May (three month moving averages). This is the single largest manufacturing sub-sector at present (around 20% of national manufacturing output and employment), so any decline in this sector is of concern.
- The small **textiles, clothing, footwear, furniture and other manufacturing sub-sector** expanded (i.e. above 50 points) for the first time since September 2012. The index for this sub-sector moved up by 3.1 points to 52.6 points in May (three month moving averages). Feedback suggests that this industry might have benefited from improved retail sales during the second half of 2013 and possibly from the more recent upswing in housing construction activity (benefiting local furniture makers). However, the Federal Budget has reportedly weighed down consumer confidence and detracted from new orders from retailers in May.



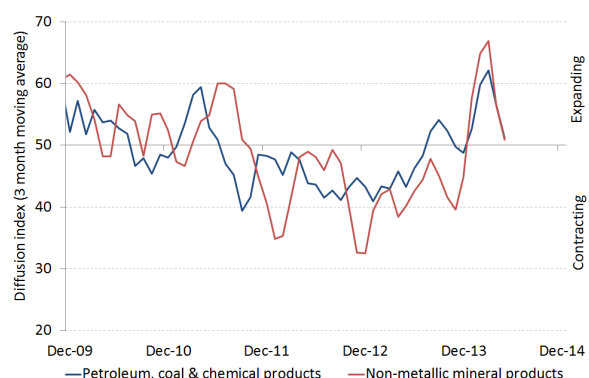
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** increased by 3.4 points to 55.8 points in May (three month moving averages). This sub-sector has now expanded for eight consecutive months (three month moving averages). The recent pick-up in residential construction activity appears to be flowing through to increased demand for wood and paper products and especially wooden building products. This sub-sector is also directly affected by changes in conditions in other manufacturing sub-sectors including food and groceries (packaging), building products (building timbers) and furniture (wood products).
- The very small **printing and recorded media sub-sector** continued to struggle in May, although this sub-sector's index recovered somewhat, increasing by 5.8 points to 37.3 points in May (three month moving averages). This sub-index continues to suggest a serious rate of contraction in this sector in 2014. Radical technology changes and strong import competition remain the key challenges for this industry, which has now contracted for five months straight.



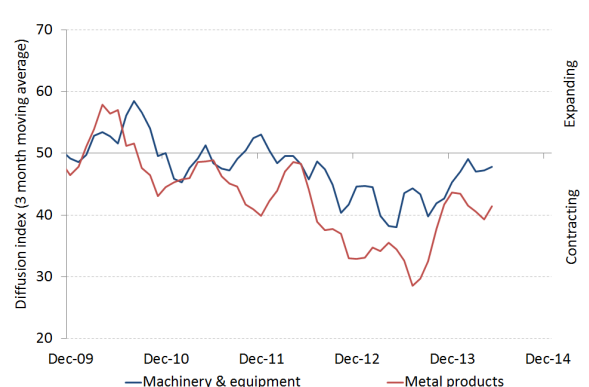
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded (above 50 points) for a fifth straight month in May, although its pace of expansion slowed again, with the sub-sector index falling by 5.3 points to 51.2 points (three month moving averages). Comments from survey participants suggest that the recent appreciation of the Australian dollar has resulted in increased import competition. This sub-sector is affected by demand fluctuations across the economy as it includes a wide range of products, from basic petrochemicals and compounds to advanced adhesives, pharmaceuticals and cosmetics.
- The **non-metallic mineral products sub-sector** also expanded for a fifth consecutive month in May. However, the sub-sector index dropped further, decreasing by 5.5 points to 50.9 points, indicating only a very mild expansion (three month moving average). This sub-sector mainly produces building materials (e.g. tiles, bricks, cement and glass). Despite stronger local building activity, this sub-sector is experiencing more intense import competition over recent months due to the renewed strength in the Australian dollar.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index remains extremely weak, at 41.4 points in May (up 2.1 points, three month moving averages). This reading signalled a severe pace of contraction. This sub-sector has been contracting (i.e. readings below 50 points) since September 2010 and its major sub-indexes remained significantly below 50 points in May. Respondents generally cited a lack of new orders in the metal products sub-sector this month. Uncertainties surrounding the Federal Budget, the recent appreciation of the Australian dollar and a more profound seasonal effect this year have reportedly affected demand for locally made products over the past few months.
- The index for the large **machinery and equipment sub-sector** was largely unchanged this month, at 47.8 points. This very important manufacturing sub-sector has been in contraction over the past 28 months (three month moving averages). Feedback indicates that the Federal Budget has significantly weighed on business confidence while import competition has increased owing to the recent appreciation of the Australian dollar.



Seasonally adjusted	Index this month	Change from last month	12 month average	Index this month	Change from last month	12 month average
Australian PMI®	49.2	+4.4	47.9	Exports (revised series)	47.8	-6.4
Production	51.6	+9.0	47.9	Sales (newly added series)	53.7	+11.8
New Orders	55.1	+13.3	49.0	Input Prices	61.4	-1.4
Employment	40.8	-2.8	46.3	Selling Prices (unadj.)	47.1	+1.1
Inventories (stocks)	46.1	-3.2	46.6	Average Wages (unadj.)	54.1	-3.3
Supplier Deliveries	46.8	-6.0	49.0	Cap. Utilisation (%) (unadj.)	70.0	+0.2

* 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, 2013. 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.