



MEDIA CONTACT

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AUGUST 2014

MANUFACTURING SLOWS IN AUGUST

Australian PMI®
Aug 2014: **47.3** ↓

USA Flash PMI
Aug 2014: **58.0** ↑

Eurozone Flash PMI
Aug 2014: **50.8** ↓

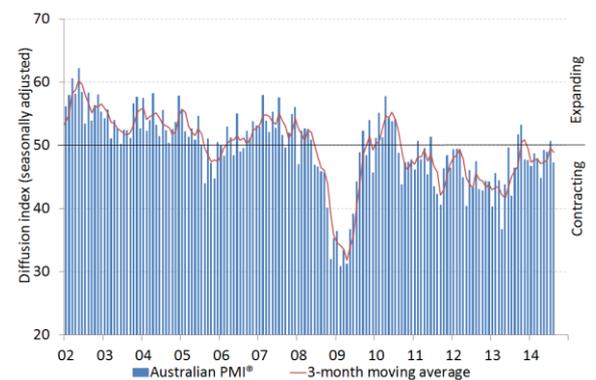
UK CIPS PMI
Jul 2014: **55.4** ↓

Japan Flash PMI
Aug 2014: **52.4** ↑

China Flash PMI
Aug 2014: **50.3** ↓

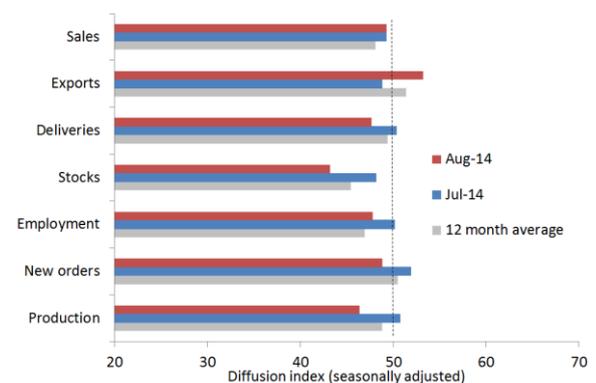
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) slipped back into negative territory this month, following a brief stabilisation in July. The index decreased by 3.4 points, to 47.3 points in August (seasonally adjusted), indicating a mild contraction in conditions across the manufacturing sector. The three-month moving average also moved lower in August, to 48.9 points. Readings below 50 points indicate contraction.
- Many respondents to the **Australian PMI®** expressed ongoing concern about the persistent strength of the Australian dollar, which has increased import competition and lowered both domestic and overseas demand for locally made products. Manufacturers remain cautious about the outlook and continue to focus on reining in their costs, as they battle very weak trading conditions across most sub-sectors.
- Among the eight manufacturing sub-sectors in the **Australian PMI®**, only the large food and beverages (53.8 points) and the smaller wood and paper products (66.3 points) sub-sectors expanded in August. All other sub-sectors contracted, with readings below 50 points.
- All of the five activity sub-indexes, as well as the sales sub-index, were below 50 points (i.e. signalling contraction) in August, indicating weak conditions across the manufacturing industry. Manufacturing exports improved in August, despite the high dollar. However, this month's expansion in exports was limited to the food, beverages and tobacco sub-sector and a handful of businesses in other sub-sectors.



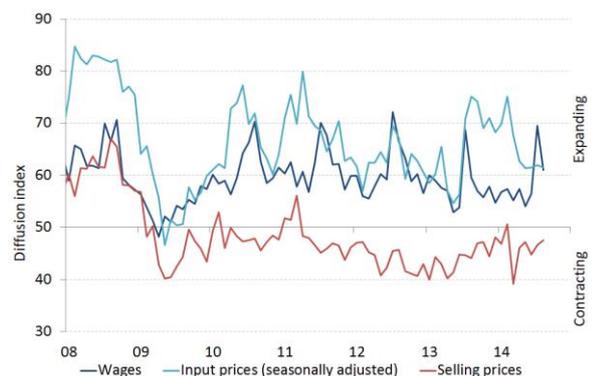
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** dropped 4.4 points to 46.3 points in August, signalling a contraction. This followed a stabilisation in production (50.8 points) in July.
- New orders in the **Australian PMI®** also contracted this month, with the sub-index declining by 3.1 points to 48.8 points. This decline ends three months of promising expansion in new orders between May and July 2014.
- The sales sub-index continued to indicate mild contraction this month. This sub-index was unchanged in August, at 49.3 points. Manufacturing sales last expanded in May 2014.
- The employment sub-index decreased by 2.4 points to 47.8 points, signalling a contraction in manufacturing employment this month. This followed a brief stabilisation in manufacturing employment in July.
- The supplier deliveries sub-index declined by 2.7 points to 47.7 points in August, indicating a mild contraction. This suggests that manufacturers remain very cautious about the outlook and are reining in their own orders and input costs in response to lower sales and new orders.
- Manufacturers also ran down their inventories at a faster pace this month, with the stocks (or inventories) sub-index falling by 4.9 points to 43.2 points in August.
- Manufacturers' capacity utilisation rate improved slightly this month, with an average of 71.9% of total capacity being utilised across the manufacturing sector in August.
- Manufacturing exports rebounded in August, with the exports sub-index increasing by 4.4 points to 53.2 points. However, this pick-up in exports was confined to the food, beverages and tobacco sub-sector and a handful of businesses in other sub-sectors.



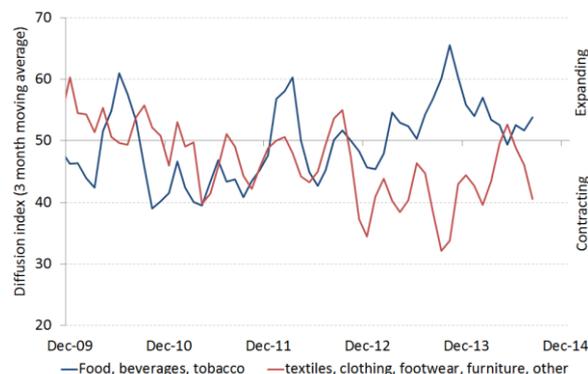
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices remained weak in August, with the sub-index increasing slightly by 0.9 points to 47.6 points. This ongoing downward pressure on selling prices means that businesses' margins remain very tight this month, as wage and input costs continue to grow.
- The input prices sub-index was almost unchanged this month, at 61.5 points, although this reading suggests that manufacturing input costs continue to grow at a solid pace.
- The wages sub-index declined by 8.5 points to 61.0 points this month. This followed a large hike last month owing to the 3% increase in the national minimum and award wage rates, as well as the increase in the Superannuation Guarantee rate to 9.5% that took effect from 1 July. Aside from this seasonal spike, national wage growth remains relatively constrained at present, with the ABS private sector Wage Price Index (WPI) for manufacturing decelerating in Q2 2014 to 2.7% p.a., which is the slowest annual rate of wage growth in manufacturing since Q2 of 2010. Slower wage growth reflects the weak state of the labour market at present, with soft employment growth (0.9% p.a.) and a rising national unemployment rate (6.4% in July, the highest level since 2002), as well as lower CPI readings over 2012-13.



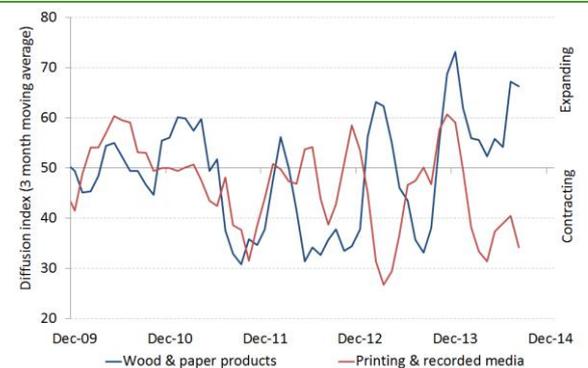
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** expanded for a third month in August (above 50 points). The sub-sector's index moved up by 2.1 points to 53.8 points this month (three month moving averages). The sub-indexes suggest sales, new orders and employment continued to expand (i.e. above 50 points), while production also returned to expansion in August. Despite stronger supplier deliveries, stock levels contracted this month. Exports have expanded for three months in this sub-sector, partly driven by the introduction of new products. The food, beverages and tobacco sub-sector is the single largest manufacturing sub-sector, accounting for around 20% of national manufacturing output and employment. It has had the strongest growth trend of all the manufacturing sub-sectors over the past year.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted for a third month in August (i.e. below 50 points). The index for this sub-sector decreased sharply by 5.5 points to 40.6 points this month, the lowest reading since February 2014 (three month moving averages). Intense import competition associated with the higher Australian dollar and ongoing subdued local retail sales for clothing, footwear and personal accessories continue to significantly dampen demand for locally made products.



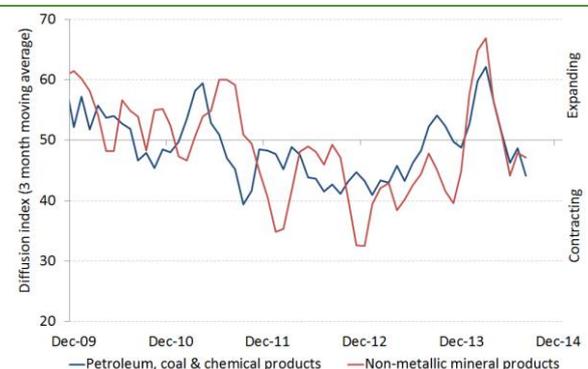
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** was mostly unchanged in August, decreasing by 1.0 point to 66.3 points (three month moving averages). This sub-sector has expanded (i.e. above 50 points) for 11 consecutive months now and all of its major sub-indexes remained above 50 points this month. The recent pick-up in residential construction activity appears to be translating into higher demand for wood products and particularly wood-based building products, while the ongoing expansion in food and beverages production is helping to support sales of paper-based packaging products.
- The very small **printing and recorded media sub-sector** contracted for the eighth consecutive month in August. This sub-sector's index fell by 6.3 points to just 34.2 points this month, indicating a more severe pace of contraction (three month moving averages). Radical technology changes and strong import competition is weighing heavily on this sub-sector, with many businesses scaling back their local production or exiting the industry altogether.



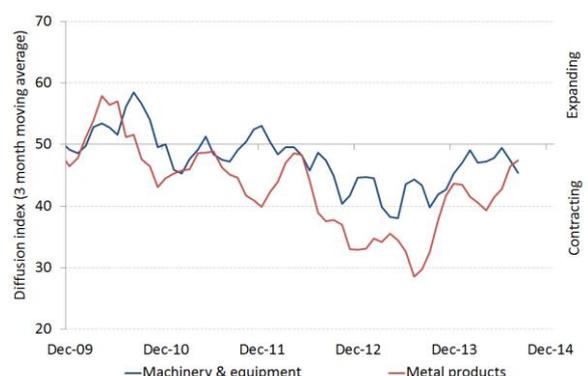
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** contracted (below 50 points) for a third month in August. This sub-sector's index declined by 4.6 points to 44.1 points in August, the lowest reading since May 2013 (three month moving averages). Respondents indicated that the ongoing strength of the Australian dollar is weighing heavily on exports, while the scheduled reductions in Australian automotive manufacturing are already affecting demand for locally made inputs and components such as tyres, adhesives, specialist paint and coatings.
- The **non-metallic mineral products sub-sector** contracted for the third month in August following five months of solid expansion between January and May 2014, with the sub-sector's index decreasing by 0.8 points to 47.1 points this month (three month moving average). This sub-sector mainly produces building materials such as tiles, bricks, cement and glass. Despite stronger local building activity, respondents report that the persistently high Australian dollar is attracting bigger flows of imports that compete directly against locally made products.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index increased by 1.0 point to 47.4 points this month, the highest level since May 2012 (three month moving averages). However, this index still points towards mild contraction (i.e. readings below 50 points) in the metal products sub-sector in August. It has been contracting for four years now. This long-term decline has been driven by intense global competition in metals production and relatively weak demand from industries including construction and the machinery and equipment manufacturing sub-sectors that use fabricated metals as an intermediate input. Although the recent pick-up in house construction activity may increase demand for locally made structural metal products, all of the metal products sub-sector's major sub-indexes remained below 50 points in August.
- The index for the large **machinery and equipment sub-sector** declined again in August, moving down by 2.0 points to 45.4 points (three month moving averages). This sub-sector has been in contraction since February 2012. All of its major sub-indexes were below 50 points this month. This important manufacturing sub-sector produces automotive and other transport equipment as well as mining, agricultural and other specialist machinery.
- Respondents continued to cite a lack of new orders across the metal products and machinery and equipment sub-sectors this month. The renewed strength of the Australian dollar has led to intensified import competition in recent months, placing significant downward pressure on pricing and further reducing demand for locally 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®	47.3	-3.4	48.7	Exports	53.2	+4.4	51.4
Production	46.3	-4.4	48.8	Sales	49.3	0.0	48.1
New Orders	48.8	-3.1	50.5	Input Prices	61.5	-0.4	67.0
Employment	47.8	-2.4	46.9	Selling Prices (unadj.)	47.6	+0.9	46.3
Inventories (stocks)	43.2	-4.9	45.4	Average Wages (unadj.)	61.0	-8.5	57.8
Supplier Deliveries	47.7	-2.7	49.4	Cap. Utilisation (%) (unadj.)	71.9	+1.5	71.7

* 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.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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