



# MANUFACTURING EDGES AHEAD IN NOVEMBER

**Australian PMI®**  
Nov 2014: 50.1 ↑

**USA Flash PMI**  
Nov 2014: 54.7 ↓

**Eurozone Flash PMI**  
Nov 2014: 50.4 ↓

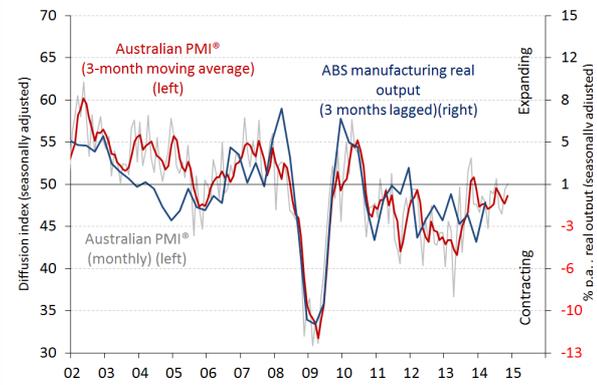
**UK CIPS PMI**  
Oct 2014: 53.2 ↑

**Japan Flash PMI**  
Nov 2014: 52.1 ↓

**China Flash PMI**  
Nov 2014: 50.0 ↓

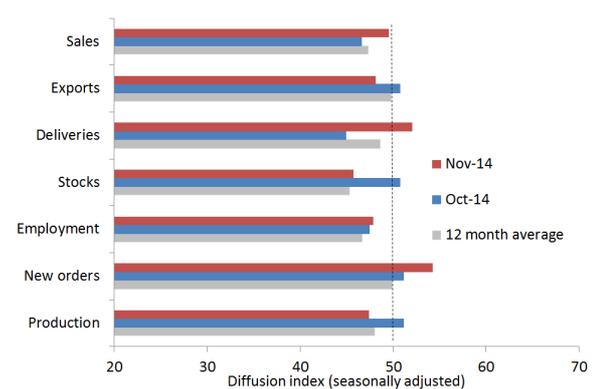
## KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 0.7 points to 50.1 points in November (seasonally adjusted), indicating the slightest of expansions across the manufacturing sector this month (readings above 50 points indicate expansion). The three-month moving average also moved higher, to 48.7 points.
- Recent results from the **Australian PMI®** suggest manufacturing output (as measured by the ABS in gross value added volumes) is likely to be broadly stable in the December quarter of 2014.
- Two of the five activity sub-indexes of the **Australian PMI®** were above 50 points in November. The new orders sub-index expanded again (i.e. above 50 points) this month, while supplier deliveries also moved into expansion. In contrast, the production, stocks and exports sub-indexes all declined to below 50 points (i.e. contraction) in November, following a very mild expansion in October. Manufacturing employment and sales continued to contract this month.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in November. The large food and beverages and the small wood and paper products sub-sectors continued to expand, while conditions improved in the textiles, clothing and furniture, and non-metallic mineral products sub-sectors (i.e. above 50 points). All other sub-sectors continued to indicate contraction this month (three-month moving averages).
- Respondents to the **Australian PMI®** noted that despite the recent depreciation, the strength of the Australian dollar is still encouraging import competition. They also noted that business sentiment and appetite for investment generally remain weak. Comments from respondents this month suggest that the impending closure of Australian automotive assembly, as well as the rapid decline in mining investment activity, appear to be countering higher demand for locally made inputs and components flowing from stronger residential construction activity.



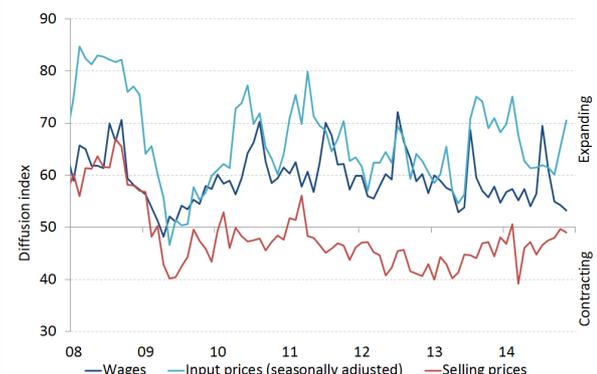
## ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** fell by 3.7 points to 47.4 points, indicating contraction in November. This followed a brief expansion in manufacturing production last month. Meanwhile, the sales sub-index indicated a sixth month of contraction in November, although it increased by 2.9 points to 49.5 points, indicating a slower rate of contraction.
- More positively, new orders expanded at a faster pace in November. The sub-index increased by another 3.1 points to 54.3 points this month, indicating a stronger pipeline of new work. This index has been over 50 points and indicating expansion in 7 out of 11 months so far this year.
- The employment sub-index in the **Australian PMI®** was broadly unchanged, at 47.8 points in November (up 0.4 points). The 6-month moving average of this employment sub-index suggests manufacturing employment (ABS, trend) is likely to shrink slightly further by the end of 2014.
- The supplier deliveries sub-index rose by 7.2 points to 52.1 points in November, signalling an expansion. However, manufacturers reduced their stock levels this month, with the stock (or inventories) sub-index decreasing by 5.0 points to 45.7 points in November.
- Manufacturers' capacity utilisation rate improved for a second month, with an average of 73.6% of total capacity being utilised across the manufacturing sector in November.
- Manufacturing exports contracted in November, with the exports sub-index declining by 2.6 points to 48.1 points. This followed very mild expansions in exports in October and August.



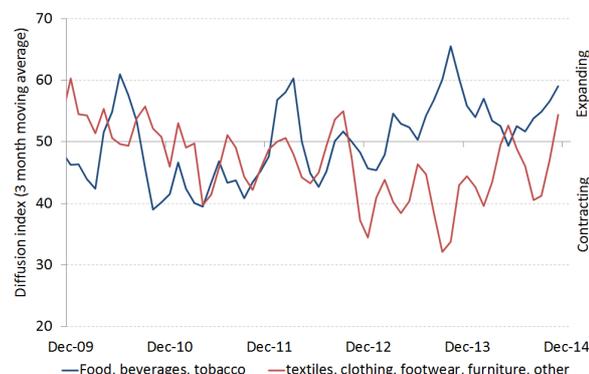
## WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** moved up again this month, increasing by 5.1 points to 70.5 points in November. This increase likely reflected rising prices for imported inputs as the Australian dollar weakens, outweighing lower electricity prices following the removal of the carbon tax from 1 July. This renewed acceleration interrupts a slower pace of growth in manufacturing input costs between April and September this year.
- The wages sub-index declined slightly to 53.3 points in November (down 1.0 points), suggesting that annual private sector manufacturing wages growth is likely to remain subdued (e.g. 2.8% p.a. in Q3 2014, according to ABS wage index data) in the 2014 December quarter. Slower manufacturing wage growth reflects ongoing weak labour demand, with the unemployment rate at 6.2% and employment growth of just 1% p.a. in October, as well as subdued background inflation, with the CPI increasing by just 2.3% p.a. in the September quarter of 2014.
- Manufacturing selling prices contracted slightly in November, with the sub-index decreasing by 0.7 points to 49.0 points. The decline in manufacturing selling prices (despite rising input prices) has been prolonged, placing significant pressures on manufacturers' margins.



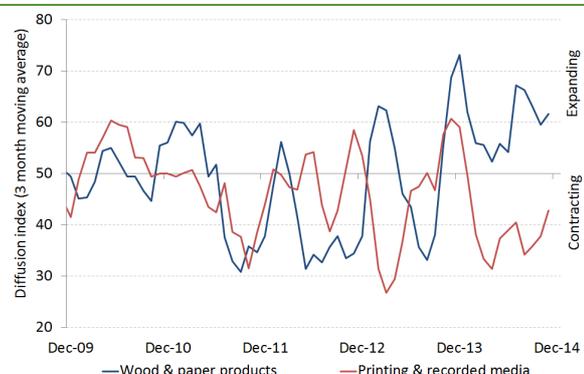
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The **food, beverages and tobacco sub-sector's** index moved up by 2.4 points to 59.1 points in November (three-month moving averages), signalling the fastest pace of expansion in a year. The food, beverages and tobacco sub-sector, the single largest manufacturing sub-sector, has shown the strongest growth rates of all the manufacturing sub-sectors over the past two years. Looking ahead, this sub-sector is likely to enjoy increased international demand for Australian-made food products over the coming years, supported by more accessible trade agreements.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** moved into expansion in November, with the sub-sector index rising by 7.3 points to 54.4 points (three-month moving averages). This followed five months of contraction. The depreciation of the Australian dollar since September and the removal of the carbon tax have reportedly boosted local demand and export volumes. The recent pick-up in residential building activity has also helped to boost sales for locally made furniture. However, import competition remains intense for these products, as for clothing, footwear and personal accessories.



## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The relatively small **wood and paper products sub-sector** expanded (i.e. above 50 points) for a fourteenth consecutive month in November. The sub-sector index increased by 2.1 points to 61.6 points, suggesting a faster pace of expansion (three-month moving averages). All major activity sub-indices for this sub-sector remained above 50 points this month. Recent improvements in residential construction activity and food and beverages production appear to have assisted demand for wood-based building products and paper-based packaging products.
- The very small **printing and recorded media sub-sector** contracted for an eleventh consecutive month in November. This sub-sector's index increased by 5.0 points to 42.8 points (three-month moving averages), suggesting a slower pace of contraction this month. Radical technology changes, lacklustre business activity and strong import competition continue to weigh heavily on demand for locally printed products and recorded media.



## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index increased slightly by 1.2 points to 39.9 points in November (three-month moving averages). This sub-sector has now contracted (below 50 points) for six consecutive months. Respondents welcomed the latest depreciation of the Australian dollar, but import competition remains intense. Weaker demand from Asian countries has also dampened export volumes in recent months. Respondents also noted that the scheduled closure of local automotive assembly and the rapid decline in mining construction activity have subtracted from demand for locally made inputs and components.
- The **non-metallic mineral products sub-sector's** index increased by 5.0 points to 50.2 points in November (three-month moving average), signalling stable conditions in this sub-sector. This followed five months of contraction. This sub-sector mainly produces building materials such as tiles, bricks, cement and glass. The recent improvement in residential building activity has boosted demand for such products. However, respondents indicated that the Australian dollar, despite its recent depreciation, remains relatively high and continues to encourage strong import competition, including for products that previously had relatively low rates of import penetration.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The very large **metal products sub-sector's** index decreased by 1.8 points to 43.2 points in November (three-month moving averages). This sub-sector has contracted in every month since September 2010. There are few signs that conditions are improving in the metal products sub-sector, with all of the sub-sector's major activity sub-indices remaining below 50 points this month (i.e. indicating contraction.).
- The index for the closely related **machinery and equipment sub-sector** increased slightly to 44.6 points (up 0.8 points) in November, signalling the 34<sup>th</sup> consecutive month of contraction (three-month moving averages). This important sub-sector includes automotive and other transport equipment, as well as mining, agricultural and other specialist machinery and equipment. The rate of contraction is likely to worsen in 2015, as automotive production reduces more sharply.
- Despite the recent depreciation of the Australian dollar, respondents across the metal products and machinery and equipment sub-sectors continued to report a lack of new orders this month. The rapid decline in mining investment activity, combined with the scheduled closure of Australian automotive assembly, is weighing heavily on demand for their products, with reports that the car makers have already started cutting orders throughout their supply chains. Elsewhere, business sentiment and appetite for investment remains weak, with some respondents also noting the negative effect of uncertainties surrounding defence procurement.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PMI®</b>	<b>50.1</b>	<b>0.7</b>	<b>48.1</b>	<b>Exports</b>	48.1	-2.6	49.8
<b>Production</b>	47.4	-3.7	48.0	<b>Sales</b>	49.5	2.9	47.3
<b>New Orders</b>	54.3	3.1	49.9	<b>Input Prices</b>	70.5	5.1	65.5
<b>Employment</b>	47.8	0.4	46.7	<b>Selling Prices (unadj.)</b>	49.0	-0.7	47.0
<b>Inventories (stocks)</b>	45.7	-5.0	45.3	<b>Average Wages (unadj.)</b>	53.3	-1.0	57.1
<b>Supplier Deliveries</b>	52.1	7.2	48.6	<b>Cap. Utilisation (%)(unadj.)</b>	73.6	1.1	71.6

\* 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>.

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