

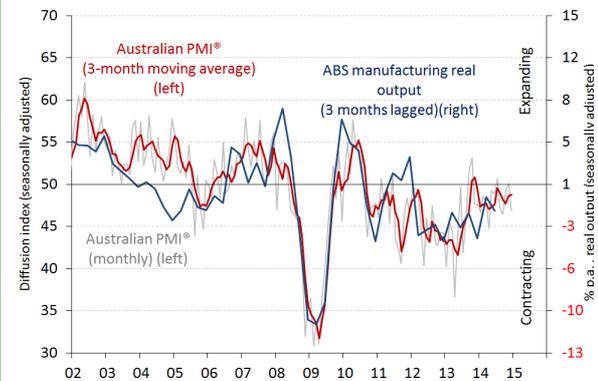


MANUFACTURING SLIPS BACK INTO CONTRACTION

Australian PMI® Dec 2014: 46.9 ↓	Markit US PMI Nov 2014: 54.8 ↓	Markit Eurozone PMI Nov 2014: 50.1 ↓	UK CIPS PMI Nov 2014: 53.5 ↑	Japan Flash PMI Dec 2014: 52.1 ↑	China Flash PMI Dec 2014: 49.5 ↓
--	--	--	--	--	--

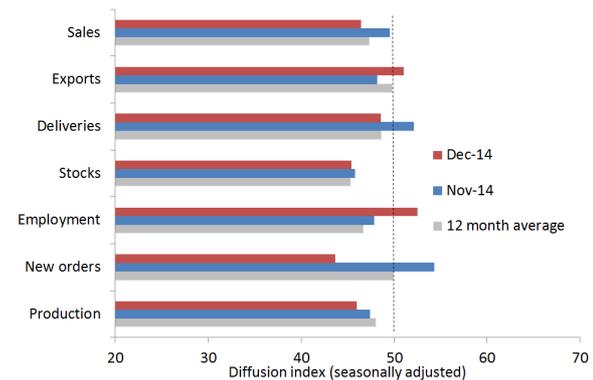
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 3.2 points to 46.9 points in December (seasonally adjusted), indicating another contraction in conditions across the manufacturing sector this month (readings below 50 points indicate contraction). The three-month moving average was almost unchanged, at 48.8 points.
- The **Australian PMI®** typically 'leads' the ABS output data for the manufacturing sector by around 3 months. Recent results from the **Australian PMI®** suggest manufacturing output (as measured by the ABS) is likely to be broadly stable in the December quarter of 2014.
- Only two of the seven activity sub-indexes of the **Australian PMI®** - that for employment and exports - were above 50 points in December. Manufacturing employment expanded mildly in December, although this was concentrated in food and beverages and a few smaller sub-sectors. Manufacturing exports also rebounded this month. The new orders sub-index fell sharply below 50 points (i.e. contraction) following two months of mild expansion. Manufacturing production contracted for a second month, while sales contracted for a seventh consecutive month. Supplier deliveries and stock levels also contracted in December.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded (i.e. above 50 points) in December. The large food and beverages and the small wood and paper products sub-sectors continued to expand, while both the textiles, clothing and furniture, and non-metallic mineral products (mainly building materials) expanded for a second month.
- Respondents to the **Australian PMI®** welcomed the further depreciation in the Australian dollar, but noted that the level of the dollar continues to encourage strong import competition. Business sentiment and appetite for investment remain weak. The closure of Australian automotive assembly facilities which is now under way, plus the rapid decline in mining investment activity, are also weighing heavily on demand for locally made machinery inputs and components.



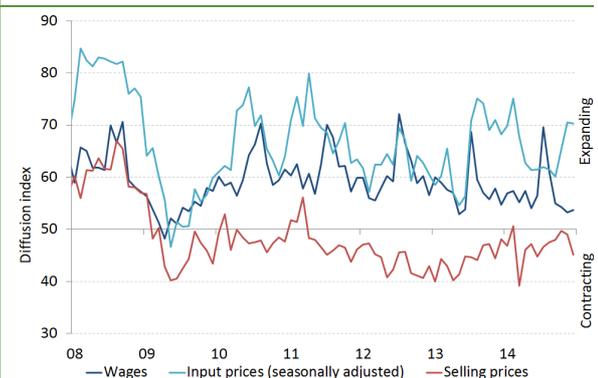
ACTIVITY SUB-INDEXES

- The new orders sub-index in the **Australian PMI®** fell sharply this month, dropping by 10.6 points to 43.7 points in December, signalling a contraction. This followed two promising months of mild expansion in manufacturing new orders in October and November.
- The production sub-index declined by 1.4 points to 46.0 points in December, indicating a second month of contraction. This followed a brief expansion in manufacturing production in October. Meanwhile, manufacturing sales contracted for a seventh consecutive month, and at a faster pace, with the sales sub-index decreasing by 3.1 points to 46.4 points in December.
- Reflecting the weak trading conditions, manufacturers reduced their stock levels again this month, with the stock (or inventories) sub-index almost unchanged, at 45.4 points in December (down 0.4 points). The supplier deliveries sub-index also slipped into negative territory this month, decreasing by 3.5 points to 48.5 points (i.e. contraction) in December.
- More positively, manufacturing employment expanded mildly this month, with the employment sub-index increasing by 4.7 points to 52.5 points. This growth was concentrated in the food and beverages, textiles, clothing and furniture, and non-metallic mineral products sub-sectors.
- Manufacturing exports recovered a touch in December, with the exports sub-index increasing by 2.9 points to 51.0 points. Manufacturing exports have now expanded in seven of the past 12 months, likely reflecting the benefits of the lower Australian dollar in 2014.
- Manufacturers' capacity utilisation rate improved for a third month, with an average of 74.5% of total capacity being utilised across the manufacturing sector in December.



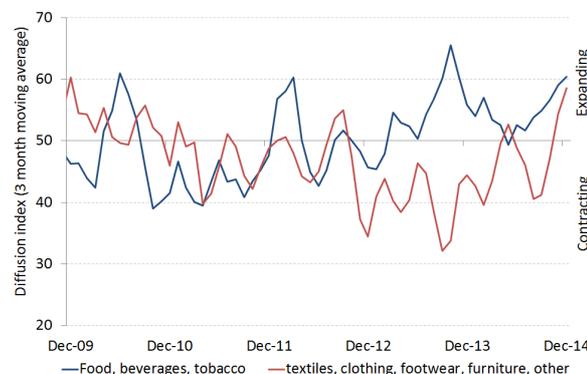
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** stayed elevated in December, at 70.3 points (down just 0.2 points). The continued increase in input prices likely reflected higher prices for imported inputs as the Australian dollar weakens. This renewed acceleration interrupts a slower pace of increase in manufacturing input costs between April and September this year.
- The wages sub-index was almost unchanged in December, at 53.7 points (up 0.4 points). This suggests 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 reaching a 12-year high of 6.3% and employment growth of just 1.2% p.a. in November, as well as subdued background inflation (CPI at just 2.3% p.a. in Q3 2014).
- Manufacturing selling prices contracted at a faster speed in December, with the sub-index decreasing by 3.9 points to 45.1 points. This steeper decline in manufacturing selling prices (despite rising input prices) continues to place significant pressures on manufacturers' margins.



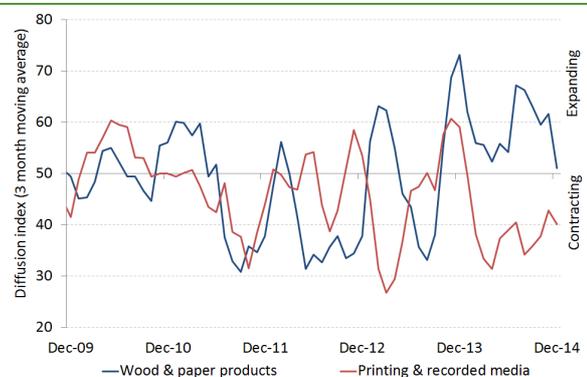
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index increased by 1.3 points to 60.4 points in December (three-month moving averages). This signalled the fastest pace of expansion since October 2013. Food, beverages and tobacco sub-sector is the single largest manufacturing sub-sector and has experienced the strongest growth among all the manufacturing sub-sectors over the past two years. A lower dollar (and eventually, more accessible trade agreements) is expected to help boost exports of Australian-made food products over the coming years.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** expanded for a second month in December, with the sub-sector's index increasing by another 4.2 points to 58.6 points (three-month moving averages). This indicates the fastest pace of expansion in this sub-sector since December 2009. The recent depreciation of the Australian dollar has reportedly increased local demand and helped export volumes. Stronger residential building activity over the past year has also boosted sales for locally made furniture. However, intense import competition, weak consumer sentiment, and weak household income growth continue to hamper demand for locally made clothing, footwear and personal products.



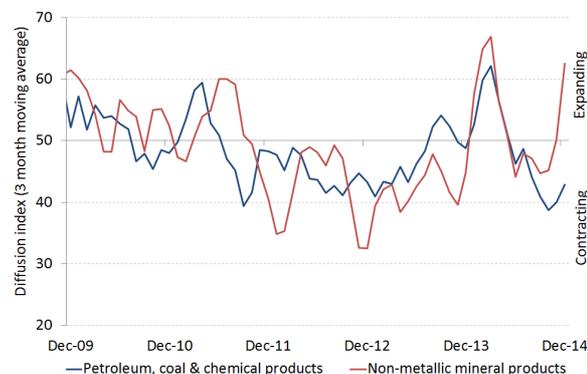
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** continued to expand in December (i.e. above 50 points). However, the sub-sector index dropped by 10.5 points to 51.1 points, signalling the slowest pace of expansion since October 2013 (three-month moving averages). The pick-up in residential construction activity over the past year and ongoing growth in food and beverages production appear to have supported demand for wood-based building products and paper-based packaging products. However, a few respondents noted that inquiry levels from the residential building industry have declined over the past two months.
- The very small **printing and recorded media sub-sector** contracted again December. This sub-sector's index decreased by 2.6 points to 40.1 points (three-month moving averages), suggesting a faster pace of contraction this month. This sub-sector last expanded in December 2013. Radical technology changes, soft business activity and strong import competition remain the key factors weighing on demand for locally printed products and recorded media.



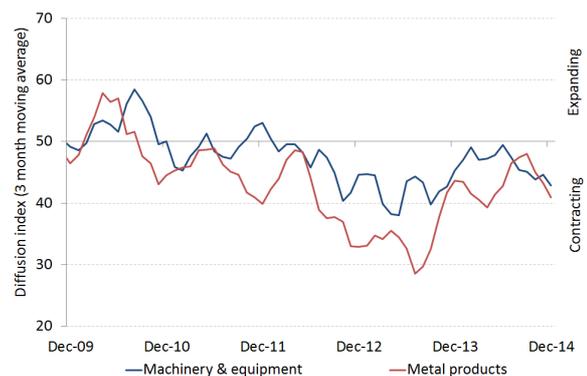
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index moved up by 3.0 points to 42.9 points in December (three-month moving averages). This signalled the seventh consecutive month of contraction (below 50 points) in this sub-sector. Despite the latest depreciation of the Australian dollar, import competition remains intense and export volumes have been dampened by weaker demand from Asian countries. The rapid decline in mining construction activity, the progressive closure of local automotive assembly, and weak overall economic conditions have affected demand for locally made chemical inputs and components.
- The **non-metallic mineral products sub-sector's** index rose by 12.4 points to 62.6 points in December (three-month moving average), the highest reading since March 2014. This sub-sector has expanded over the past two months, following five months of contraction. It mainly produces building materials such as tiles, bricks, cement and glass and has benefitted from the recent improvement in residential building activity. Respondents indicated that despite its further depreciation, the Australian dollar continues to encourage strong import competition, including for building materials and products that previously had relatively low rates of import penetration.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index decreased for a third month, moving down by 2.3 points to 40.9 points in December (three-month moving averages). This sub-sector has been in contraction since September 2010 and there are few signs of improving conditions.
- The index for the closely related **machinery and equipment sub-sector** also declined, to 42.9 points (down 1.7 points) in December, pointing towards a faster pace 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. It last expanded in January 2012. The rate of contraction is likely to worsen in 2015, as automotive production reduces more sharply.
- Respondents across the metal products and machinery and equipment sub-sectors continued to report a lack of new orders in December. Despite a lower Australian dollar and higher residential construction activity over the past year, the sharp fall in mining investment, the progressive closure of Australian automotive assembly, as well as weak general business confidence and investment, are significantly dampening demand for locally made metal products and machinery and equipment. Drought conditions across certain parts of the country are also impinging on demand for specialised equipment from the agriculture industry.



Seasonally adjusted	Index this month	Change from last month	12 month average	Index this month	Change from last month	12 month average
Australian PMI®	46.9	-3.2	48.1	Exports	51.0	2.9
Production	46.0	-1.4	47.8	Sales	46.4	-3.1
New Orders	43.7	-10.6	49.6	Input Prices	70.3	-0.2
Employment	52.5	4.7	47.1	Selling Prices (unadj.)	45.1	-3.9
Inventories (stocks)	45.4	-0.4	45.3	Average Wages (unadj.)	53.7	0.4
Supplier Deliveries	48.5	-3.5	48.7	Cap. Utilisation (%)(unadj.)	74.5	0.9

* 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.