MANUFACTURING GROWTH SLOWS IN JULY

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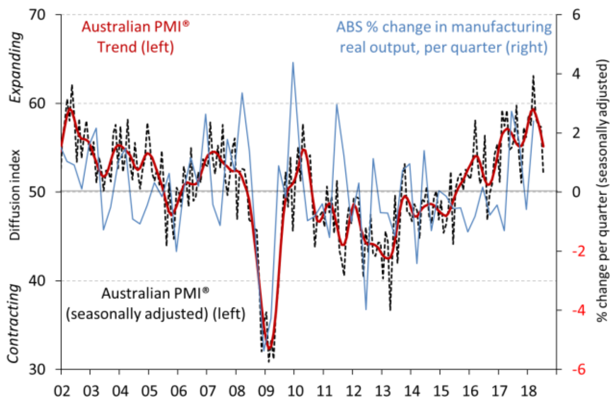
JULY 2018

Australian PMI®	US Flash PMI	Eurozone Flash PMI	UK IHS PMI	Japan Flash PMI	China Caixin PMI
Jul 2018: 52.0 ↓	Jul 2018: 55.5 ↑	Jul 2018: 55.1 ↑	Jun 2018: 54.4 ↑	Jul 2018: 51.6 ↓	Jun 2018: 51.0 ↓

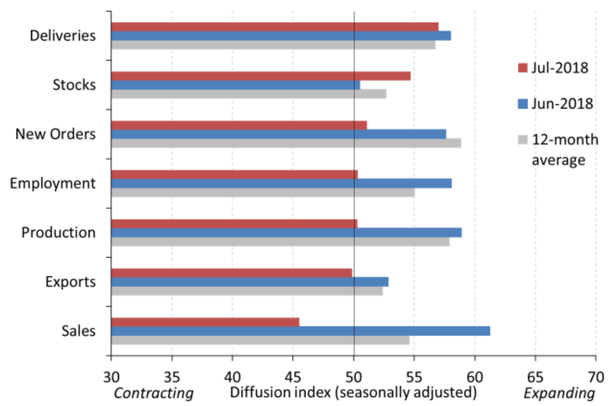
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 5.4 points to 52.0 points, indicating continuing but slower growth across the manufacturing sector in July (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- The **Australian PMI®** has indicated positive conditions (results above 50 points) for 22 consecutive months but has slowed since reaching a record high in March 2018.
- Of the seven activity sub-indexes in the **Australian PMI®**, three expanded, three were stable and one contracted in July. The sales sub-index tends to be volatile around the end of the financial year. It dropped by 15.7 points to 45.5 points - its lowest result since early 2016 - indicating a contraction in July. The new orders sub-index fell by 6.5 points to 51.1 points but remained expansionary in July, suggesting modest activity growth for most parts of manufacturing in the months ahead.
- Five of the eight sub-sectors in the **Australian PMI®** expanded in July. Expansions were stronger in the larger sub-sectors of food & beverages, petroleum, coal & chemical products, non-metallic minerals and machinery and equipment. The smaller sub-sectors of wood & paper products and the 'textiles, clothing & other manufacturing' sub-sectors contracted in July. The metal products sub-sector was stable, at around 50 points in July.
- Infrastructure projects continue to support demand for manufacturing products, but rising energy costs and growing wage pressures are constraining activity. Many respondents noted an increase in wage rates from 1 July (including this year's minimum wage increase of 3.5%) that are pushing up their labour input costs.



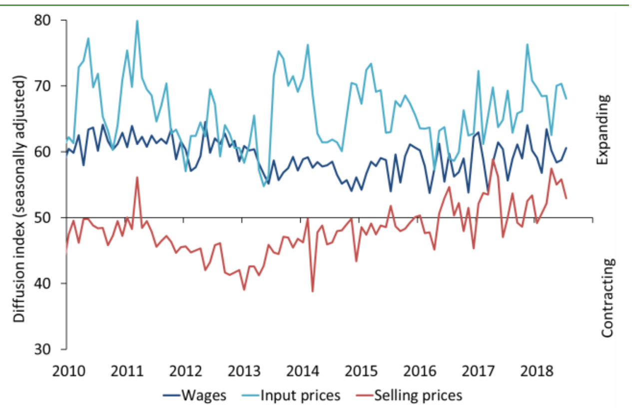
ACTIVITY SUB-INDEXES

- The production sub-index indicated stable levels in July, falling by 8.6 points to 50.3 points.
- The sales sub-index dropped by 15.7 points to 45.5 points in July, its lowest result since early 2016. This sub-index tends to be volatile around the end of each financial year.
- The new orders sub-index fell by 6.5 points to 51.1 points in July. Ongoing but slower growth in new orders suggests further modest growth in the coming months. Respondents in the metal products sub-sector noted fewer new orders due to the end of financial year.
- The employment sub-index dropped by 7.8 points to 50.3 points, indicating stable employment levels in July after one year of recovery. This signals that the recovery in manufacturing employment might be stalling. The ABS estimates that manufacturing employment reached 940,000 in May 2018, its highest level since August 2012 (trend).
- The exports sub-index eased by 3.0 points to 49.9 points, indicating stable export levels. The exports sub-index has weakened over the past year, suggesting that recent buoyant conditions across the manufacturing sector have been driven more by domestic demand.
- The deliveries sub-index eased by 1.0 points to 57.0 points in July. This indicated a slower, but still buoyant expansion of supplies being ordered to meet forward production needs.
- The stocks sub-index increased by 4.2 points to 54.7 points, indicating a rebuilding in manufacturers' inventories in July.
- Capacity utilisation rose to 79.8% of available capacity in July. This is above this indicator's long-run average of 73.2% and suggests more businesses have low spare capacity.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index eased by 2.2 points to 68.1 points in July. Input prices remain elevated for petroleum, coal, chemical and rubber products, metal products and machinery and equipment, reflecting their high energy input costs. Some respondents noted an increase in the cost of raw materials in July, possibly reflecting global price recoveries for oil and other key commodities in recent months.
- The average wages sub-index rose by 1.8 points to 60.6 points in July, indicating a faster rate of wage increases across manufacturing. Many respondents noted an increase in wage rates from 1 July - the date when the Fair Work Commission's 3.5% minimum wage rise came into operation. Employment was stable in July after a year of growth suggesting that employers may be wary of the increased costs of employment as the Fair Work Commission decision reverberates through the labour market.
- The manufacturing selling price sub-index fell by 2.8 points 53.0 points, indicating another (albeit slower) price increase for manufacturing customers in July. Although the sub-index fell in July, it has been indicating selling price rises in every month since February 2018.

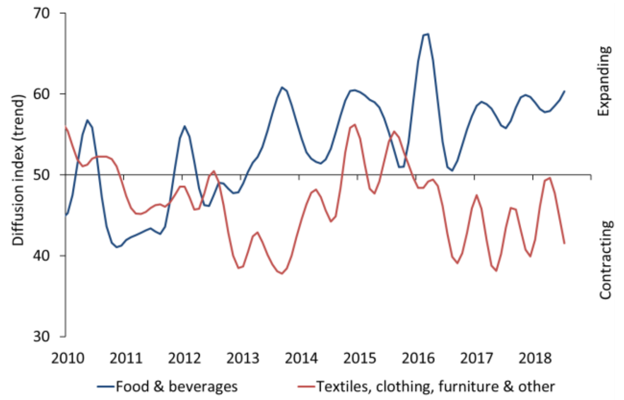


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, rose by 1.0 points to 60.3 points in July. It has been expanding since early 2013 (trend). Strong expansions in productions, deliveries and exports were evident in July. Exports have been particularly strong for this sub-sector in recent months, most likely due to a lower Australian dollar and increased regional demand for Australian food products.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the small but diverse 'textile, clothing, furniture & other manufacturing' sub-sector fell by 3.2 points to 41.5 points in July, indicating another month of contracting conditions (trend). This sub-sector last experienced positive conditions in 2015. Textiles, clothing and related segments continue to face tough local and global trading conditions.

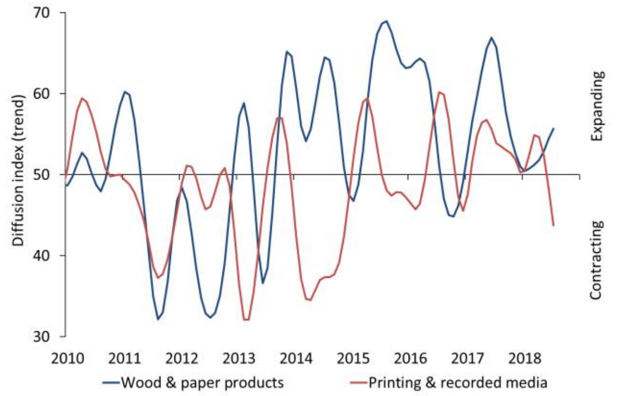


WOOD & PAPER*

- The small wood and paper products sub-sector's index increased by 1.2 points to 55.7 points, indicating expanding conditions in July (trend). Although orders from residential building customers appear to be tailing off, paper and packaging producers are still benefiting from growth in the food and beverages processing sector and from groceries production.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector's index fell further into contraction in July, falling by 4.6 points to 43.7 points (trend). Despite some respite in 2017 and early 2018, this sub-sector faces ongoing long-term challenges due to rapid technology changes and intense import competition.

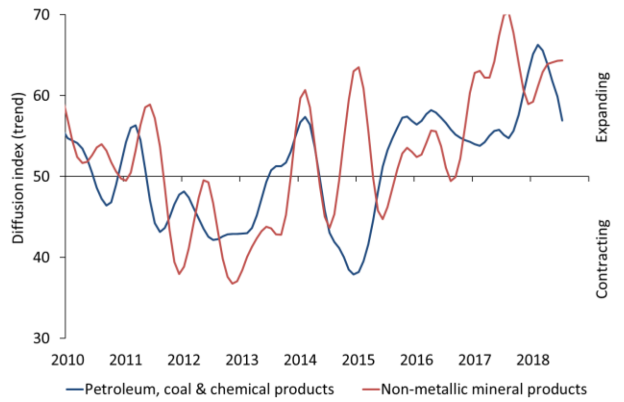


PETROLEUM, COAL & CHEMICALS*

- The index for the large petroleum, coal and chemicals sub-sector fell by 3.0 points to 56.9 points in July, indicating a slower rate of expansion (trend). This sub-sector's rate of expansion picked up in late 2017 as some manufacturers began servicing large infrastructure projects on the east coast. This extremely diverse sub-sector includes fertilisers, agricultural chemicals, pharmaceuticals, toiletries and health supplements (all of which are growing steadily), as well as construction-related products such as paints, adhesives and surface treatments. High gas costs remain a special concern for chemical producers in this sub-sector that use gas as a feedstock rather than an energy source.

NON-METALLIC MINERALS*

- The index for the non-metallic mineral products (mainly building-related products) sub-sector indicated expanding conditions in July at 64.3 points (trend). Demand for building-related products (e.g. glass, cement and tiles) remains elevated due to the strong pipeline of residential construction and non-residential construction work yet to be done.

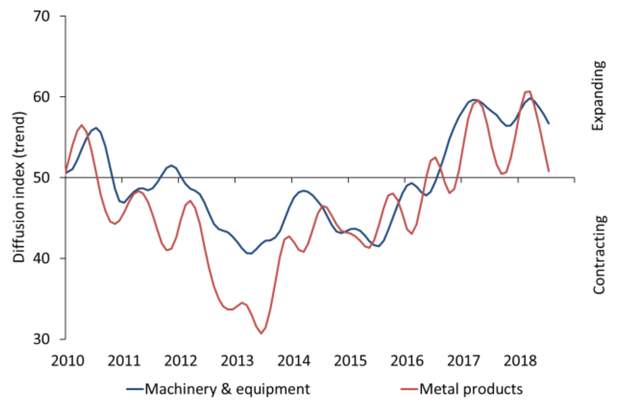


METAL PRODUCTS*

- The metals sub-sector was stable in July at 50.8 points. This sub-sector has been slowing in recent months, after welcome recoveries in orders in 2017 and early 2018. Many respondents are reporting a slower start to the new financial year in July. Some respondents noted that increased competition from cheaper imports is limiting their ability to win contracts or raise their selling prices, despite increasing costs for their raw materials.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index fell by 1.1 points to 56.7 points in July. This sub-sector makes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars - such as trucks, trains, buses and boats – all of which are in demand in 2018. In July, respondents noted particularly strong demand for machinery and equipment for infrastructure construction projects in New South Wales.



Seasonally adjusted	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PMI®	**52.0**	**-5.4**	**56.9**	Exports	49.9	-3.0	52.4
Production	50.3	-8.6	57.9	Sales	45.5	-15.7	54.6
New Orders	51.1	-6.5	58.9	Input Prices	68.1	-2.2	68.3
Employment	50.3	-7.8	55.0	Selling Prices	53.0	-2.8	52.6
Inventories	54.7	4.2	52.7	Average Wages	60.6	1.8	60.1
Supplier Deliveries	57.0	-1.0	56.7	Capacity Utilisation (%)	79.8	0.7	78.0

* All sub-sector indexes in the **Australian PMI®** are reported in trend terms (Henderson 13-month filter) 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 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 indicates the strength of the expansion or decline. Australian PMI® results are based on responses from a national sample of manufacturers that includes all states and all sub-sectors. The **Australian PMI®** uses the ANZSIC industry classifications for manufacturing sub-sectors and sub-sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. **For further economic analysis and information from the Australian Industry Group, visit** http://www.aigroup.com.au/policy-and-research/economics/economicindicators/.