AUSTRALIAN pmi
PERFORMANCE OF MANUFACTURING INDEX®

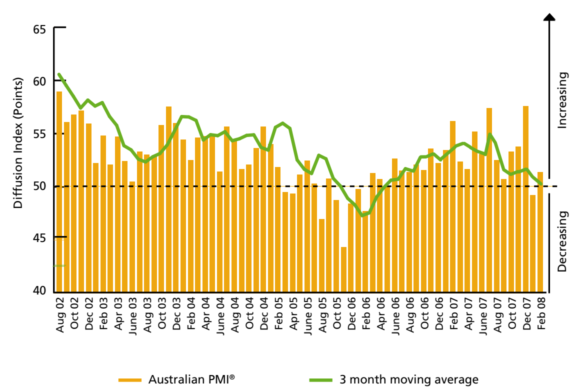
AUSTRALIAN INDUSTRY GROUP
PRICEWATERHOUSECOOPERS

FEBRUARY 2008

# MANUFACTURING GROWTH REMAINS SUBDUED

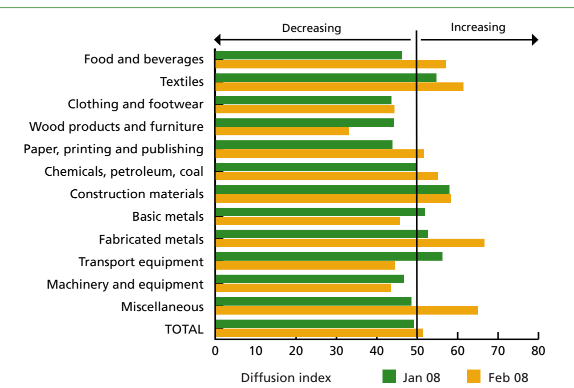
## KEY FINDINGS

- Manufacturing activity remained subdued in February, following a weak January that was marked by seasonal shutdowns, global instability and input cost and interest rate concerns. As a consequence, production continued to fall modestly due principally to the latter concerns.
- The seasonally adjusted Australian Industry Group-PricewaterhouseCoopers **Australian PMI®** rose 2.2 points in the month, to 51.4, following an 8.4 point drop in January.
- Production and employment eased slightly. The improvement in activity in February reflected a lift in new orders and input deliveries while stocks also grew, though at a slower rate than in January. Exports fell.
- Input cost growth accelerated in February, while selling prices rose more slowly than in recent months indicating some margin squeeze. Growth in wages picked up in February, while capacity utilisation (unadjusted) rose.
- Manufacturers cited positive effects on activity from strong demand, particularly from the mining sector and infrastructure spending. On the negative side were: import competition; lack of skilled labour; the rising cost of raw materials; the high $A and Chinese competition. Seasonal factors in regard to factory shutdowns over the holiday break continued to constrain production for some firms.
- Activity grew in all states except South Australia and Tasmania.



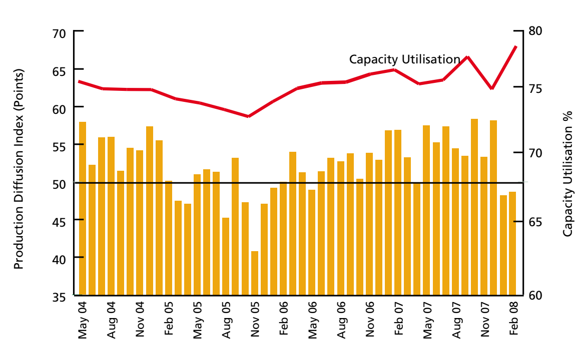

## SECTORS

- Seasonally adjusted, activity expanded in seven sectors in February, compared with five in January.
- Growth was strong in the fabricated metal products; miscellaneous manufactures; and textiles sectors and solid in the food & beverages; construction materials; and chemicals, petroleum & coal products sectors.
- Paper, printing & publishing saw a return to modest growth, following five months of contraction.
- In contrast, activity fell in the clothing & footwear; transport equipment; machinery & equipment; basic metal products; and wood, wood products & furniture sectors.

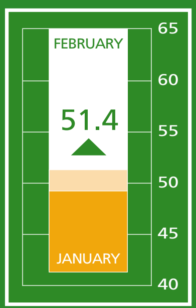



## PRODUCTION AND CAPACITY

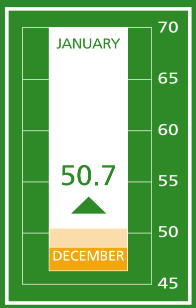
- Seasonally adjusted, the production sub-index rose 0.4 points to 48.8, below the 50 point mark separating expansion from contraction, so production fell mildly for the second month. Unadjusted, the number of sectors reporting higher production was four (up from two in the previous month).
- Production grew strongly in the miscellaneous manufactures; fabricated metal products; and construction materials sectors. Chemicals, petroleum & coal products production grew solidly.
- The strongest production declines were experienced in the clothing & footwear; wood, wood products & furniture; basic metal products; and machinery & equipment sectors.
- Production also declined in the food & beverages; paper, printing & publishing; textiles; and transport equipment sectors.
- Unadjusted capacity utilisation rose to 77.9% in February.



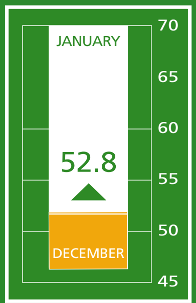

AUSTRALIAN PMI®



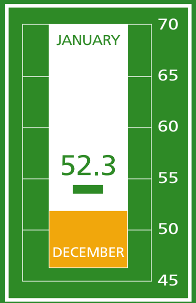

USA ISM PMI



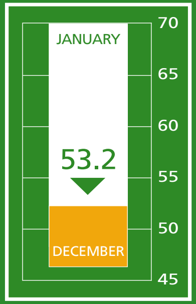

EUROZONE PMI




JAPANESE PMI




CHINESE PMI

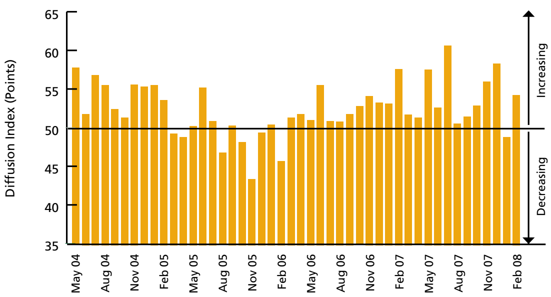


# Performance of Manufacturing Index

CIPS Australia

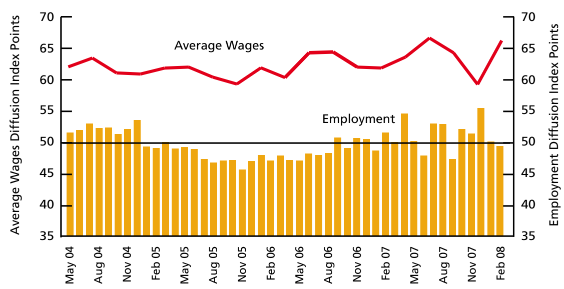
## NEW ORDERS

- The new orders sub-index rose by 5.7 points to 54.9 in February.
- Seven sectors reported new order increases (unadjusted), compared with none in January. Orders fell in five sectors.
- The strongest increases in new orders were experienced in the food & beverages; chemicals, petroleum & coal products; construction materials; and fabricated metal products sectors.
- Orders also grew in the textiles; miscellaneous manufactures; and basic metal products sectors.
- Orders declined in the machinery & equipment; transport equipment; clothing & footwear; wood, wood products & furniture; and paper, printing & publishing sectors.



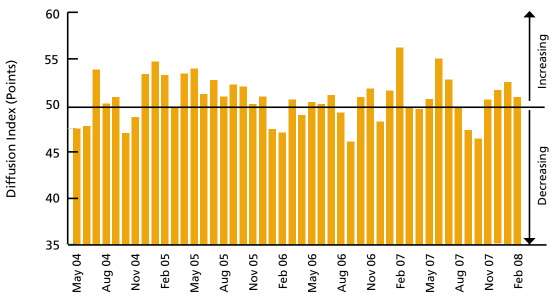

## EMPLOYMENT AND AVERAGE WAGES

- Seasonally adjusted, the employment sub-index fell by 0.6 points to 49.3, so that overall employment remained basically stable in February, as it did in January. The stability in employment is consistent with the declines in production over the past two months reflecting short-term seasonal shutdowns.
- In unadjusted terms, employment grew in five sectors, fell in five and remained stable in two.
- Reflecting construction activity, employment grew solidly in the construction materials and fabricated metal products sectors.
- Employment also rose in the transport equipment; paper, printing & publishing; and food & beverages sectors.
- It remained stable in the clothing & footwear and machinery & equipment sectors, while falling in the textiles; wood, wood products & furniture; chemicals, petroleum & coal products; basic metal products; and miscellaneous manufactures sectors.
- In February the average wages index rose to 65.7 compared to 58.9 points in January.



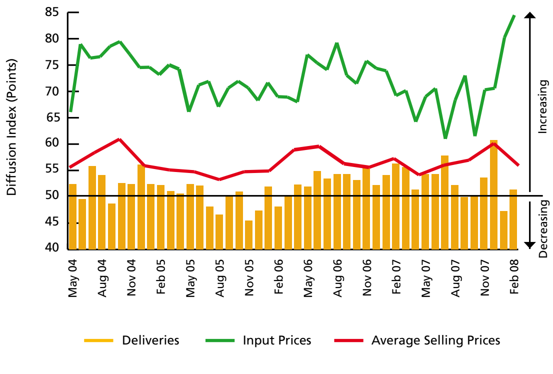

## FINISHED STOCKS

- The inventories sub-index fell 1.6 points to 51.3 (seasonally adjusted), with stocks continuing to rise. Unadjusted, the number of sectors reporting increases was four, up from two in January. Stocks fell in four sectors and were stable in four.
- Stocks fell in the miscellaneous manufactures; transport equipment; construction materials; and wood, wood products & furniture sectors.
- Inventories rose solidly in the textiles; paper, printing & publishing; chemicals, petroleum & coal products; and fabricated metal products sectors.
- Stocks remained stable in the food & beverages; clothing & footwear; basic metal products; and machinery & equipment sectors.




## DELIVERIES, INPUT COSTS, OUTPUT PRICES

- Seasonally adjusted, the supplier deliveries sub-index rose by 4.1 points, to 51.4. Unadjusted, six sectors experienced higher deliveries, two reported no change and four sectors saw declines.
- Deliveries rose strongly in the textiles and fabricated metal products sectors. The chemicals, petroleum & coal products; construction materials; transport equipment; and miscellaneous manufactures sectors posted solid gains in deliveries.
- The clothing & footwear and basic metal products sectors saw stable deliveries, while the food & beverages; wood, wood products & furniture; paper, printing & publishing; and machinery & equipment sectors saw declines.
- The raw material cost index rose 4.2 points to 84.5 (seasonally adjusted). In unadjusted terms, costs rose in all 12 sectors.
- The strongest gains were in food & beverages; fabricated metal products; and chemicals, petroleum & coal products.
- Selling price rises rose again on average across manufacturing. The most significant price gains were in food & beverages; wood, wood products & furniture; and construction materials.




## NATIONAL INDEXES

| | Feb 08 | Feb 07 | Jan 08 | Dec 07 | Nov 07 | Oct-07 | Sep 07 | Aug 07 | Jul 07 | Jun 07 | May 07 | Apr 07 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AUSTRALIAN PMI | 51.4 | 56.2 | 49.2 | 57.6 | 53.8 | 53.3 | 50.7 | 52.4 | 57.4 | 53.1 | 55.2 | 51.7 |
| PRODUCTION | 48.8 | 57.1 | 48.4 | 58.4 | 53.5 | 58.5 | 53.6 | 54.6 | 57.5 | 55.4 | 57.7 | 50.1 |
| EMPLOYMENT | 49.3 | 51.5 | 49.9 | 55.2 | 51.3 | 52.0 | 47.3 | 52.8 | 53.0 | 47.8 | 50.1 | 54.5 |
| NEW ORDERS | 54.9 | 58.4 | 49.2 | 58.9 | 56.7 | 53.5 | 52.1 | 51.1 | 61.5 | 53.3 | 58.3 | 51.9 |
| INVENTORIES | 51.3 | 56.8 | 52.9 | 52.0 | 51.0 | 46.8 | 47.7 | 50.3 | 53.3 | 55.6 | 51.1 | 50.0 |
| DELIVERIES | 51.4 | 56.3 | 47.3 | 60.7 | 53.6 | 50.3 | 49.9 | 52.2 | 57.8 | 54.3 | 54.3 | 51.3 |
| INPUT PRICES | 84.5 | 69.3 | 80.3 | 70.7 | 70.4 | 61.6 | 73.1 | 68.4 | 61.1 | 70.6 | 69.1 | 64.3 |
| EXPORTS (UNADJUSTED) | 45.5 | 50.0 | 50.6 | 50.9 | 56.7 | 48.3 | 50.8 | 47.8 | 51.9 | 50.0 | 56.0 | 49.4 |
| SELLING PRICES# | 56.0 | | 60.2 | 57.0 | 56.1 | 54.2 | 57.3 | | | 55.7 | | |
| AVERAGE WAGES# | 65.7 | | 58.9 | 63.8 | 66.1 | 63.2 | 61.5 | | | 61.6 | | |
| CAPACITY UTILISATION# | 77.92 | | 74.74 | 77.14 | 75.42 | 75.13 | 76.17 | | | 75.85 | | |

Results for the third month of each quarter are based on an expanded sample (in excess of 500 companies). Results for the other months are based on responses from over 200 companies An Evaluation of the Australian PMI prepared by the Melbourne Institute of Applied Economic and Social Research can be obtained from the Ai Group website on www.aigroup.asn.au.

# Results for capacity utilisation, average wages and output prices to Jun 2007 based on quarterly surveys. From this point data will be collected in the monthly PMI survey.

• **New monthly seasonal adjustment factors derived directly from an X-12 estimation process were applied in April 2007.**

### WHAT IS THE AUSTRALIAN PMI®?

The **Australian Performance of Manufacturing Index (Australian PMI®)** is a seasonally adjusted composite index based on the diffusion indexes 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.

More information can be obtained from the Ai Group web site www.aigroup.asn.au.

### SPONSOR STATEMENT

PricewaterhouseCoopers is delighted to be associated with the Survey of Australian Manufacturing and the Australian Industry Group. This association brings together the significant experience and expertise of Australia's leading industry body and the largest business adviser to the manufacturing sector. We look forward to continuing our association with the Australian Industry Group and its members, and to playing our part in the ongoing development of Australian manufacturing.
Graeme Billings,
Global Industrial
Manufacturing Leader.

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### CONTACT

**Heather Ridout**
Chief Executive
Ai Group
work 02 9466 5504

**Graeme Billings**
Global Industrial
Manufacturing Leader
PricewaterhouseCoopers
work 03 8603 3007
mobile 0408 572 729

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