

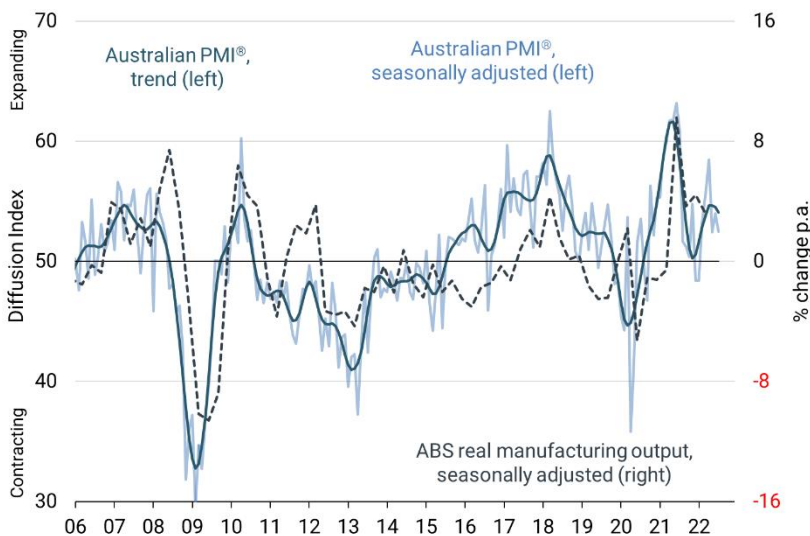
Manufacturing slows in July

Key findings

- Manufacturing activity slowed in July. Most subsectors eased but the metal products sectors recovered strongly.
- Labour challenges, supply chain disruptions and high energy prices remain the major structural constraints on manufacturing.
- Input prices declined for the first time since February 2022 but remain at very high levels. Employment declined, reflecting labour shortage pressures on manufacturing businesses.
- Most manufacturing activity indicators declined in July. However, new orders and sales strengthened, despite tight supply chain pressures.

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined by 1.5 points to 52.5 points in July 2022 (seasonally adjusted). This indicates a weaker rate of expansion across manufacturing in July. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

Australian PMI® (seasonally adjusted)



July 2022

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Australian PMI®

▼ 1.5 points
(seasonally adjusted)

52.5

Australian PMI®

▼ 0.5 points (trend)

54.1

Food & beverages

n.a.

Machinery & equipment

▼ 8.6 points (seas. adj.)

48.8

Metal products

▲ 10.4 points (seas. adj.)

51.1

Chemicals

▼ 0.6 points (seas. adj.)

55.1

Building materials, wood & other

▼ 6.6 points (seas. adj.)

45.8

TCF, paper & printing

▼ 7.8 points (seas. adj.)

59.4

Manufacturing sectors: The machinery & equipment and building materials sectors fell into contraction in July. The machinery & equipment sector contracted following nine consecutive months of expanding conditions since October 2021. The indexes for the chemicals, TCF and paper & printing sectors eased but remained in expansion. The metal products sector recovered to be mildly expansionary.

Manufacturing wages and prices: The **Australian PMI®** input price index declined for the first time since February 2022, falling by 9.6 points in July (seasonally adjusted). This indicates that the input price increases decelerated, on average, for manufacturers in July compared to June. Manufacturers' selling prices and the **Australian PMI®** average wages index decreased in July. The decline in wages indicates a lower pace of increase in wages across the manufacturing sector in July (seasonally adjusted).

Manufacturing activity: Five of the seven activity indexes expanded in July (results above 50 points), with three expanding at a decelerating rate. The finished stocks and exports indexes eased but remained expansionary, while the employment index eased slightly marking three months of broadly stable conditions. The new orders index reflected more upbeat conditions in July, as did the sales index which bounced back to growth. The production and supplier deliveries indexes both fell into contraction. Manufacturers noted that production levels were impeded by labour shortages.

Manufacturing highlights: Manufacturing growth decelerated in July compared to June. Buoyant demand from domestic builders improved activity levels for some manufacturers in July. Modest export activity, particularly increased demand from Asian countries, as well as generally improved market activity contributed to mildly expansionary conditions in the month.

Manufacturing concerns: Fewer enquiries, weather conditions, delayed construction projects, inflationary cost pressures, supply chain difficulties, wage increases and uncertainty in the energy market were the major concerns reported by manufacturers in July. Some businesses indicated that their production levels were inhibited by staff absenteeism and the inability to fill entry level positions.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average	AUSTRALIAN PMI® SECTORS	Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PMI®	52.5	-1.5	50.9	Australian PMI®	54.1	-0.5	50.9
				<i>seasonally adjusted</i>			
Production	47.5	-7.2	51.6	Food & beverages	n.a.	n.a.	n.a.
Employment	50.1	-0.9	49.2	Machinery & equipment	48.8	-8.6	50.5
New Orders	59.9	4.2	51.8	Metals products	51.1	10.4	47.7
Supplier Deliveries	47.4	-4.1	50.8	Petroleum, coal, chemicals			
Finished stocks	55.1	-1.6	50.0	& rubber products	55.1	-0.6	51.8
Exports	51.2	-1.8	50.0	Building, wood, furniture			
Sales	54.0	9.0	49.7	& other products	45.8	-6.6	50.3
Input Prices	79.7	-9.6	68.4	Textiles, clothing, footwear,			
Selling Prices	64.5	-3.3	50.0	paper & printing	59.4	-7.8	48.8
Average Wages	62.8	-6.5	59.2				
Capacity Utilisation (%)	81.9	0.0	74.5				

Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

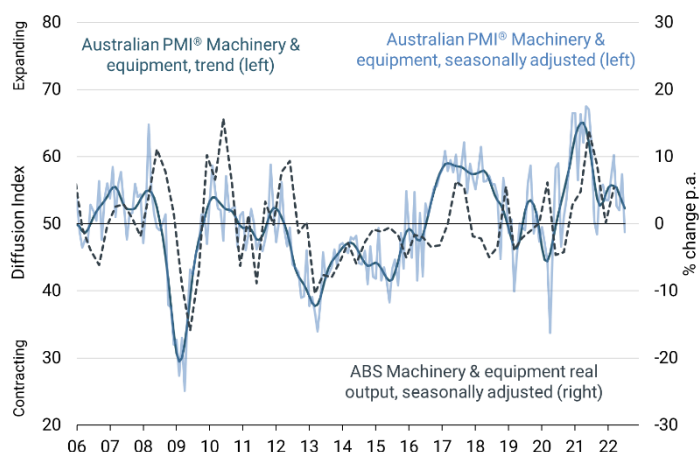
MANUFACTURING REPORT CARD: Latest ABS data		Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>		\$bn	%	%	%
Real value-added output, \$bn, year to Mar 2022		116.8	0.8	5.1	5.6% of total GDP
Nominal sales, \$bn, year to Mar 2022		397.6	1.0	1.1	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to May 2022		128.2	3.6	9.4	22.2% of total export earnings
Nominal company profits (GOP), \$bn, year to Mar 2022		43.7	4.7	14.3	8.6% of non-farm company profits
Real investment (CAPEX), \$bn, year to Mar 2022		10.5	-1.4	6.4	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Mar 2022		57.4	0.7	3.4	9.3% of non-farm business wages
Manufacturing employed persons, May 2022, million		831	-2.2	-8.7	6.1% of employed persons
Manufacturing businesses with employees, 2020-21		49,058	N/A	5.0	4.9% of employing businesses

ABS sources: Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Force Survey, Business Counts.

n.a.. Results are not available for this sector in this period due to low survey response numbers.

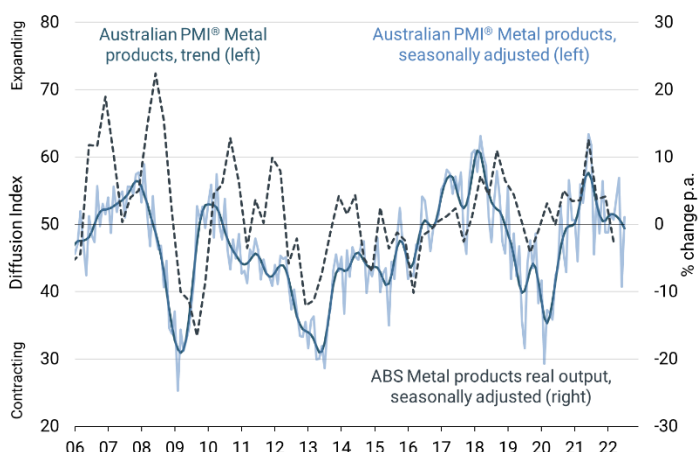
Machinery & Equipment

- The machinery & equipment sector produced \$25.9bn in real value-added output in the year to Q1 2022 (22% of manufacturing real value-added output). It employed 192,000 people in May 2022 (22% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector fell by 8.6 points to 48.8 points, indicating contracting conditions in July (seasonally adjusted).
- Fewer enquiries, delayed construction projects, inflationary cost pressures, significant wage increases and uncertainty in the energy market contributed to weak conditions in July. Some respondents also reported severe labour shortages as persistent COVID-19 outbreaks led to staff absences.



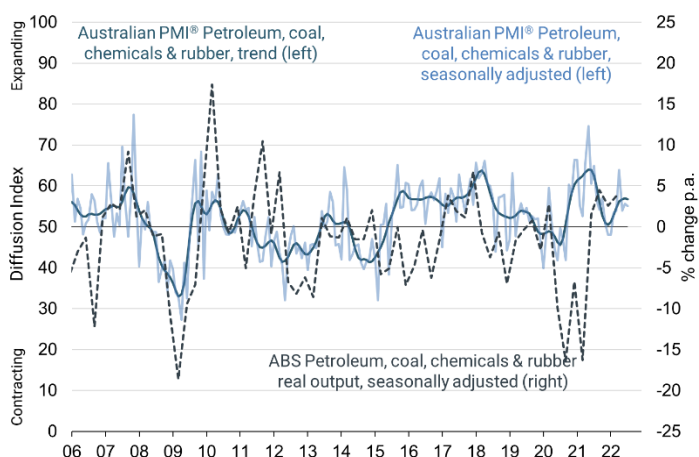
Metal Products

- The metal products sector produced \$19.4bn in real value-added output in the year to Q1 2022 (17% of manufacturing real value-added output). It employed 141,000 people in May 2022 (16% of manufacturing employment, ABS data).
- The metal products index recovered by 10.4 points to 51.1 points, indicating mild expansion in July (seas. adj).
- Strong domestic building improved activity levels for metals manufacturers in July. However, some businesses noted that a forecast for lower material prices in six to eight months has caused some customer to slow down their current expenditure. The weather conditions in NSW and Queensland prevented some manufacturers from installing product.



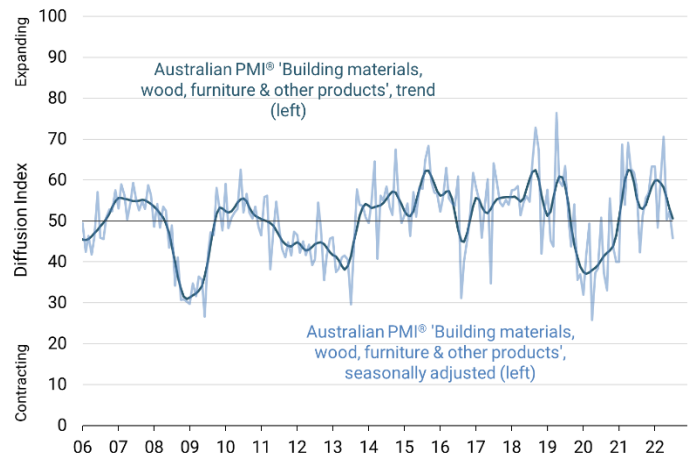
Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$18.2bn in real value-added output in the year to Q1 2022 (16% of manufacturing real value-added output). It employed 81,000 people in May 2022 (9% of manufacturing employment, ABS data).
- The chemicals index eased by 0.6 points to 55.1 points indicating a slower pace of expansion in July (seasonally adjusted).
- Some businesses indicated that their production levels were inhibited by staff absenteeism and the inability to fill entry level positions. High gas prices, input cost pressures, flood impacts and supply chain difficulties hampered growth in the month. However, large mining jobs stabilised sales for some businesses in the sector.



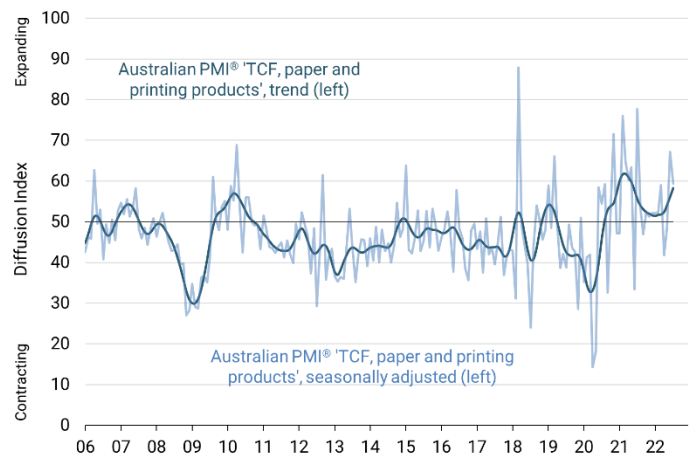
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 141,000 people in May 2022 (16% of manufacturing employment, ABS data).
- This sector includes building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings, and other household products.
- The index for the building materials, furniture & other manufacturing sector decreased by 6.6 points to 45.8 points, reflecting weak conditions in July (seasonally adjusted).
- High energy prices and labour shortages caused operational challenges for some manufacturers in the sector. Weather conditions impacted demand.



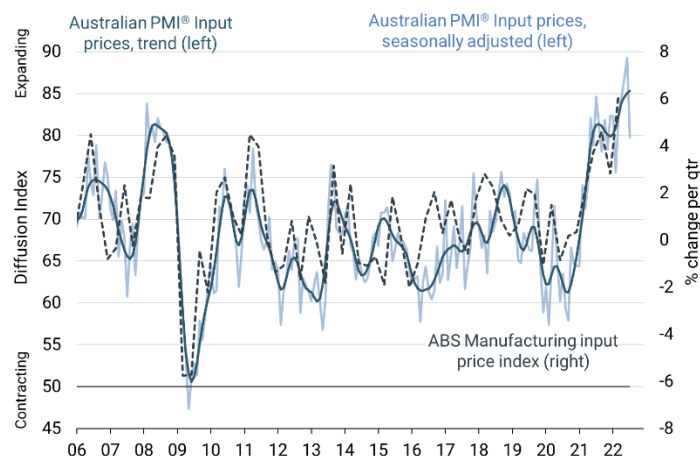
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 80,000 people in May 2022 (9% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for this sector dropped by 7.8 points to be 59.4 points, easing from the recent peak in June but remaining strong (seasonally adjusted).
- Increased costs and wages, higher interest rates and difficulty securing raw materials were some of the challenges reported by manufacturers in the sector.



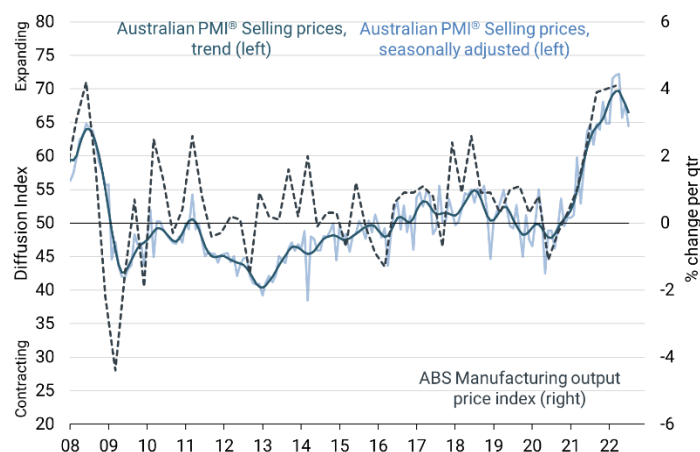
Input prices

- Manufacturers' input prices rose by an average of 18.5% over the quarter and 6.2% over the year to Q1 of 2022 (ABS, *Producer Price Index*).
- The **Australian PMI®** input price index declined for the first time since February 2022, falling by 9.6 points to 79.7 points in July (seasonally adjusted), indicating that the input price increases decelerated, on average, for manufacturers in July compared to June.
- Input prices eased for manufacturers in the machinery & equipment and TCF, paper & printing products sectors. Manufacturers in the metal, chemical products and building materials sectors reported price increases for raw materials, imported inputs and components.



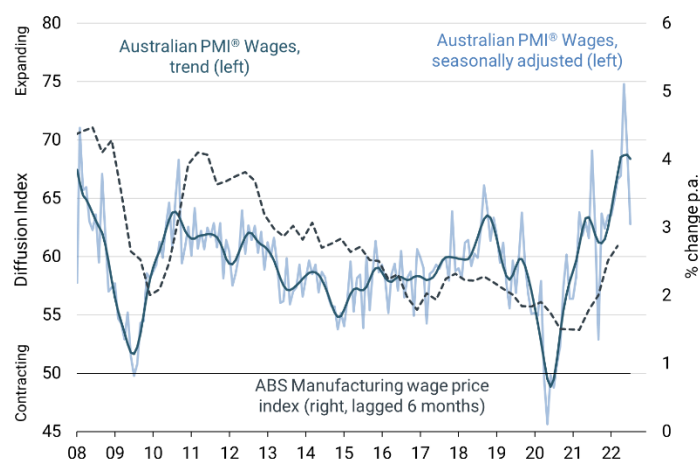
Selling prices

- Manufacturers' output (selling) prices rose by an average of 4.1% over the quarter and 15.1% over the year to Q1 of 2022 (ABS, *Producer Price Index*).
- The selling price index fell by 3.3 points to 64.5 points in July (seasonally adjusted). The reading suggests fewer manufacturers are able to pass on costs to their customers as it becomes difficult to lift prices further.
- Selling prices rose in the machinery & equipment, metal and chemical products sectors while they fell in the building materials and TCF, paper & printing products sectors.



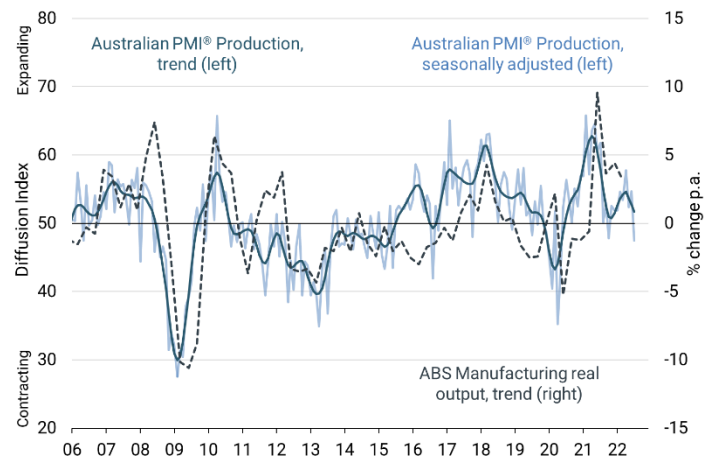
Average wages

- Private sector wages across the manufacturing industry rose by an average of 2.7% over the quarter and 0.6% over the year to Q1 of 2022 (ABS, *Wage Price Index*).
- The Australian PMI® average wages index decreased by 6.5 point to 62.8 points (seasonally adjusted) but remained elevated in July. July is typically when most manufacturing sector wage rises occur and a reversal of wage freezes that were implemented over the past financial year.
- Wages were stronger in the machinery & equipment and metal products sectors. Manufacturers noted concerns about wage increases.



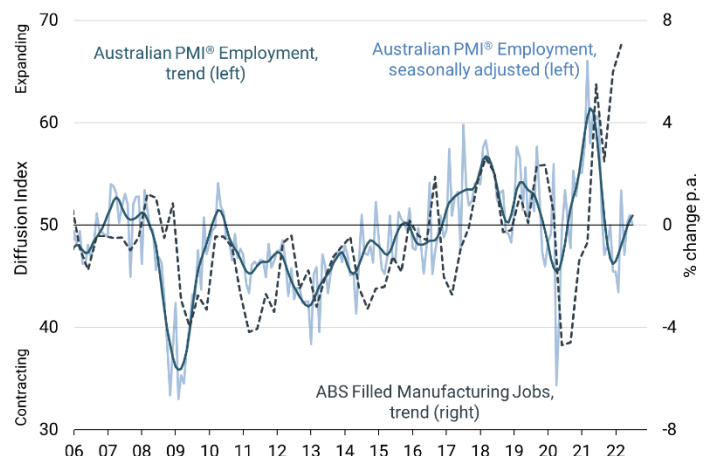
Production

- The manufacturing industry produced \$116.8bn in real value-added output in the year to Q1 2022 (5.6% of Gross Domestic Product, GDP). Manufacturers' value-added output rose by 0.8% over the quarter and 5.1% over the year to Q1 2022 (ABS data).
- The Australian PMI® production index declined by 7.2 points to 47.5 points in July, indicating lower production levels (seasonally adjusted).
- Production contracted in the machinery & equipment, chemical products and building materials sector but was flat in the TCF, paper & printing products sectors. Manufacturers noted that production levels were constrained by staff shortages.



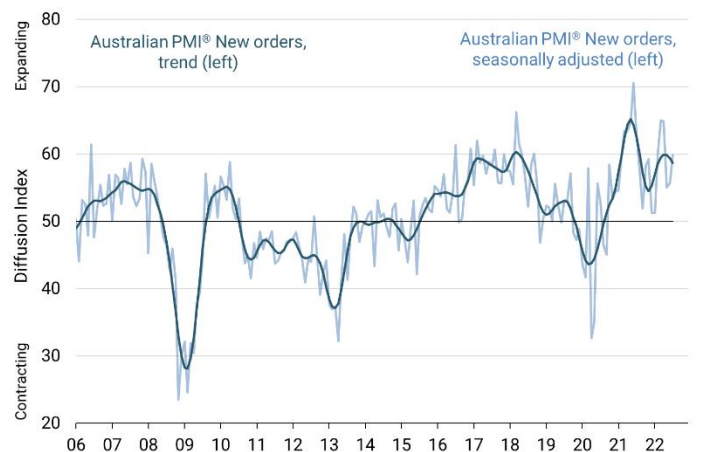
Employment

- There were 929,900 filled jobs in manufacturing in Q1 2022, accounting for 7.0% of all filled jobs in Australia (ABS Labour Account).
- The ABS Labour Force Survey identified 831,100 people working in manufacturing in May 2022, down 2.2% from February 2022 and 8.7% year on year respectively.
- The Australian PMI® employment index eased by 0.9 points to 50.1 points, indicating stable conditions in manufacturing employment in July (seasonally adjusted).
- Employment dropped in most manufacturing sectors. Manufacturers indicated difficulty filling entry level positions. Some businesses noted that more staff were requesting casual working arrangements as staff absenteeism remained elevated.



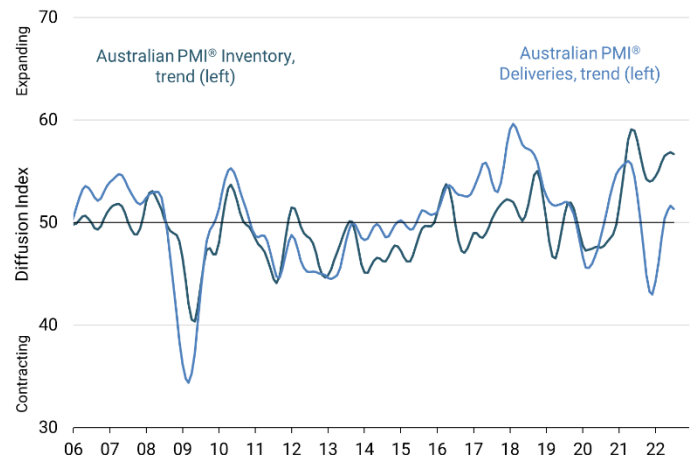
New orders

- The new orders index rose by 4.2 points to 59.9 points, indicating strong customer demand in July (seasonally adjusted).
- The acceleration in new orders for Australian manufacturers suggests growth in production and sales in the next few months.
- New orders accelerated in three manufacturing sectors and was strongest in the chemical products sector. New orders for manufacturers in the machinery & equipment and TCF, paper & printing products sectors declined.



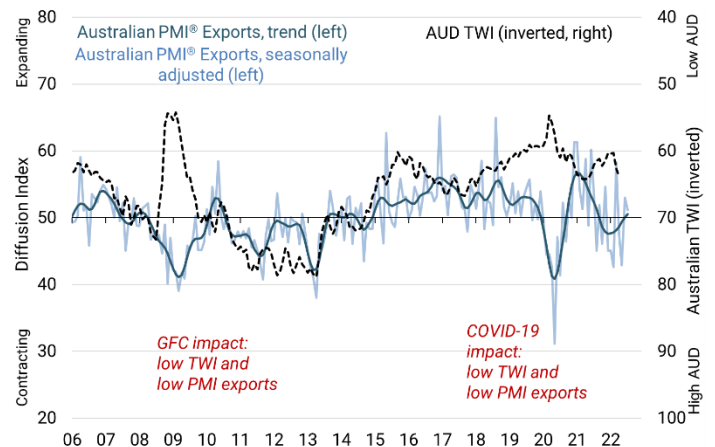
Supplier deliveries & finished stocks

- The supplier deliveries index fell by 4.1 points to 47.4 points in July, indicating a decrease in the supply of raw materials ordered by manufacturers (seasonally adjusted).
- The stocks (inventories) index decreased by 1.6 points to 55.1 points in July. This indicates a decrease in stock levels held by manufacturers (seasonally adjusted). Some manufacturers continued to report difficulty obtaining raw materials.



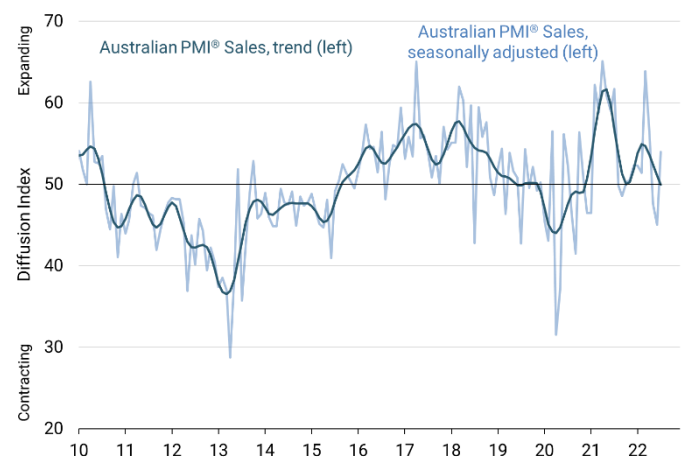
Exports

- Export earnings for Australian manufactured goods were worth \$128.2 bn in the year to May 2022 (22% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index eased by 1.8 points to 51.2 points (seasonally adjusted). This reflects flat export sales for manufacturers in July.
- Exports rose in the metal, chemical and TCF, paper & printing products sectors but fell in the machinery & equipment and building materials sector. Some businesses noted modest export demand in the month.



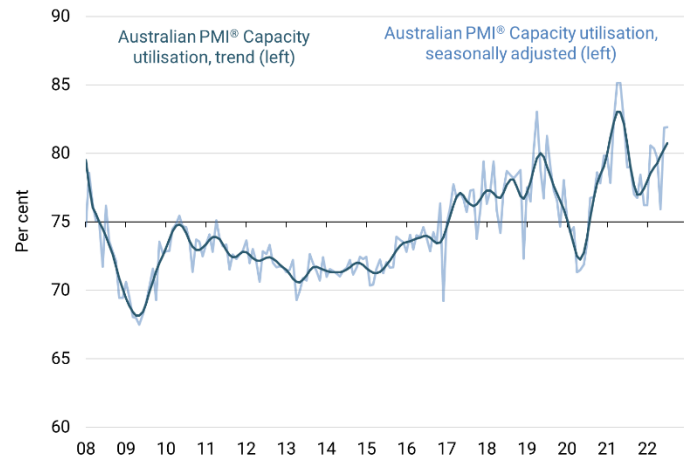
Sales

- The sales index rebounded by 9.0 points to 54.0 points in July (seasonally adjusted). This indicates expansionary conditions in manufacturing sales.
- This result is well above the long-term average of 49.7 points for this index (since 2009).
- Sales in the chemical sector lifted from contraction to strong expansion in July. Manufacturers in the machinery & equipment and metal products sectors reported weaker sales. Businesses noted a modest increase in sales, but the cost of sales was pushing the margin down.



Capacity utilisation

- Australia's manufacturers invested \$10.5bn in capital expenditure (CAPEX) over the year to Q1 2022 (real dollars).
- The **Australian PMI®** capacity utilisation remained unchanged from the previous month to be 81.9% in July (seasonally adjusted). This remained above the long-run average for this index of 74.5% (since 2007). This suggests that manufacturers will need to increase employment and investment to increase production in future.



Australian PMI® data definitions

The Australian PMI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PMI, the definitions of the six sectors are:

1. Food & beverage products (ANZSIC codes 11 and 121).
2. Machinery & equipment manufacturing including motor vehicles, other transport equipment, professional and scientific equipment, electrical and electronic equipment, computers, domestic appliances, pumps, compressors, heating, cooling, ventilation, specialist equipment (ANZSIC codes 23 and 24).
3. Metal products including basic ferrous, non-ferrous, fabricated iron and steel, structural metals, metal containers, sheet metal and other metal products (ANZSIC codes 21 and 22).
4. Petroleum and coal-based products, basic chemicals, chemical products, fertilisers, pesticides, pharmaceuticals and medicinal products, cleaning compounds, toiletries, polymers and rubber products (ANZSIC codes 17, 18 and 19).
5. Building materials, wood, furniture & other manufacturing products including glass, ceramic, cement, lime, plaster, concrete, wood, logs, timber, furniture & other manufacturing products (ANZSIC codes 14, 20, 25).
6. TCF, paper and printing products including textiles, leather, clothing, footwear, pulp, paper, paperboard, converted paper products printing and the reproduction of recorded media (ANZSIC codes 13, 15, 16).



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. The Australian PMI® uses the ANZSIC industry classifications for manufacturing sectors and 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 www.aigroup.com.au/resourcecentre/economics.

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