AUSTRALIAN

PERFORMANCE OF MANUFACTURING INDEX™

AUSTRALIAN INDUSTRY GROUP

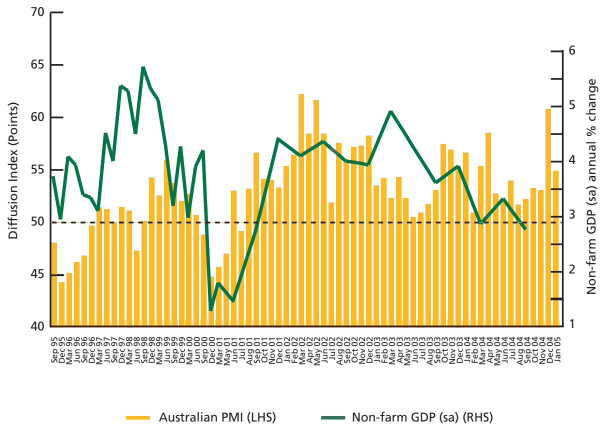
PRICEWATERHOUSECOOPERS

JANUARY 2005

MANUFACTURING RESUMES ITS MODERATE GROWTH PATH

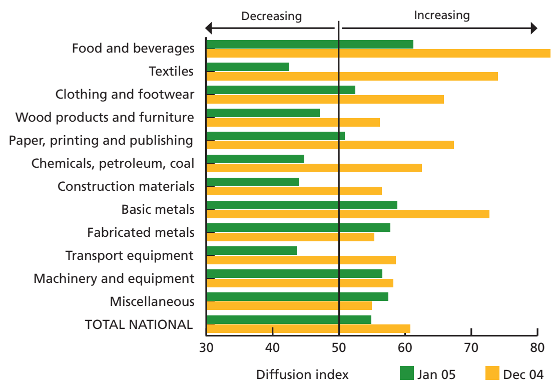
KEY FINDINGS

- Manufacturing resumed its moderate growth path in January, with a build-up of stocks indicating the strength of demand evident in December has not carried through to 2005. The seasonally adjusted **Australian PMI™** declined by 5.9 points to 54.9.
- Four of the five main component series recorded slower growth – production, new orders, employment and deliveries – as well as exports which were flat after a solid December gain.
- In unadjusted terms, seven (of 12) sectors recorded activity readings above the critical 50-point mark, with outcomes highest in food & beverages, basic metals and fabricated metals. Of the five recording contraction, textiles, transport equipment and construction materials were weakest partly reflecting seasonality.
- Despite the easing, the January 2005 result continues the steady improvement evident since August 2004, and points to non-farm GDP growth strengthening to 3.5%. As well, the **Australian PMI™** points to manufacturing growth of around 3% in annual terms.



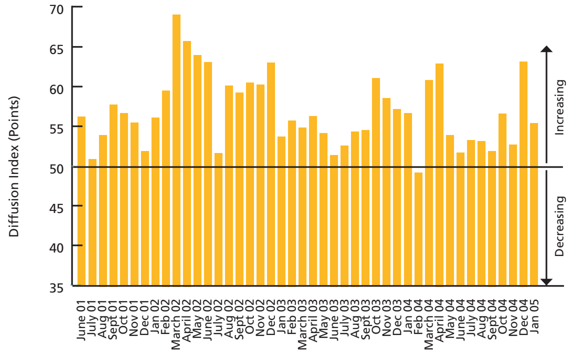
SECTORS

- In unadjusted terms, seven sectors recorded activity readings above the critical 50-point mark, down from 12 last month and compared to the eight recording expansion in January 2004.
- Readings were highest in food & beverages, basic metals and fabricated metals. Activity was weakest in textiles, transport equipment and construction materials, with chemicals, petroleum & coal products and wood, wood products & furniture also contracting.
- Relative to the previous month (and partly reflecting seasonal influences), ten of twelve sectors recorded lower activity readings, with textiles, food & beverages, chemicals, petroleum & coal products, and paper, printing & publishing most affected.
- Only the fabricated metals and miscellaneous manufacturing sectors recorded higher activity readings in the month.

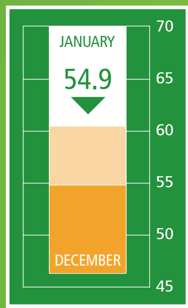


PRODUCTION

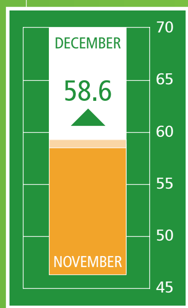
- In seasonally adjusted terms, the production index eased by 7.9 points in January to 55.5.
- Production was strongest in food and beverages and basic metals. Five other sectors also expanded, including wood, wood products & furniture and miscellaneous manufacturing, which were the only sectors to record higher production readings in the month.
- By contrast, production contracted in the textiles, chemicals, petroleum & coal products, construction materials and transport equipment sectors, and remained unchanged in clothing & footwear. These sectors also recorded the largest index declines.
- Production expanded (in unadjusted terms) in NSW, Victoria and Queensland, remained steady in WA and Tasmania, and declined in SA.



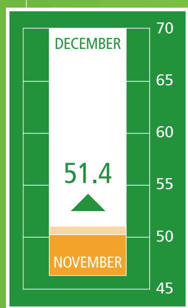
AUSTRALIAN PMI



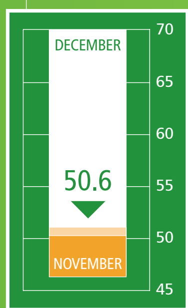
USA ISM PMI



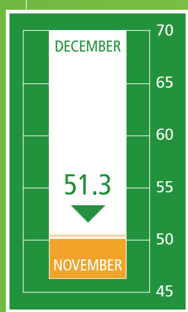
EUROZONE PMI



JAPANESE PMI



CHINESE PMI



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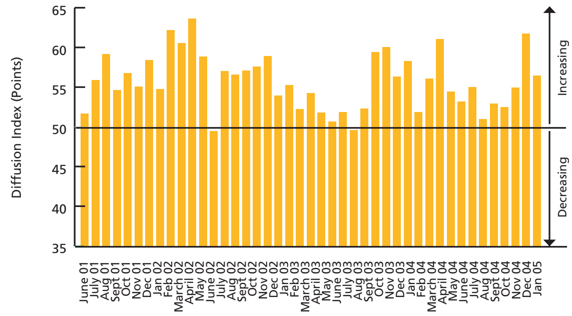
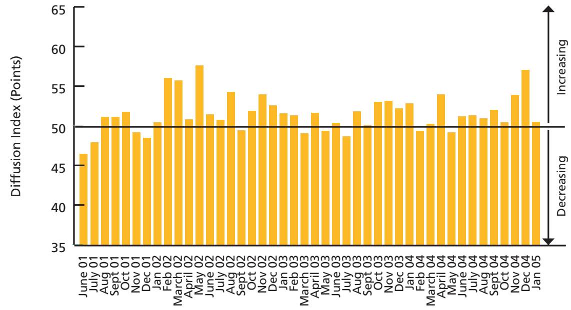
NEW ORDERS

- New orders (sa) moderated from 62.6 to 57.2, resuming the moderate growth path evident prior to December 2004.
- Seven sectors recorded increased orders (down from 12 previously) with outcomes strongest in basic and fabricated metals, food & beverages, textiles, and miscellaneous manufacturing, which was the only sector to record a higher orders index reading in the month.
- New orders declined in the wood, wood products & furniture, chemicals, petroleum & coal products and construction materials sectors, and remained steady in transport equipment and textiles.
- Unadjusted new orders were steady in NSW, with rises recorded in all other states.



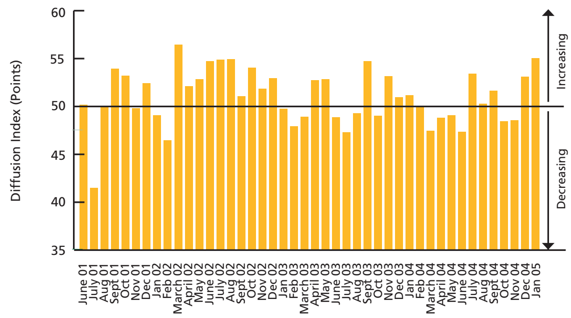
EMPLOYMENT

- Employment declined by 6.8 points to 50.9 in January (after seasonal adjustment).
- Four sectors recorded increased employment, down from 12 previously and seven in January 2004. The sectors recording increases were food & beverages and basic metals, along with clothing & footwear and fabricated metals (the only two to record higher job index readings relative to December).
- Five sectors recorded lower jobs, with transport equipment, textiles and paper, printing & publishing most affected.
- Employment was unchanged in the wood, wood products & furniture, machinery & equipment and miscellaneous manufacturing sectors.
- Queensland recorded higher employment, with NSW and Victoria recording small declines.



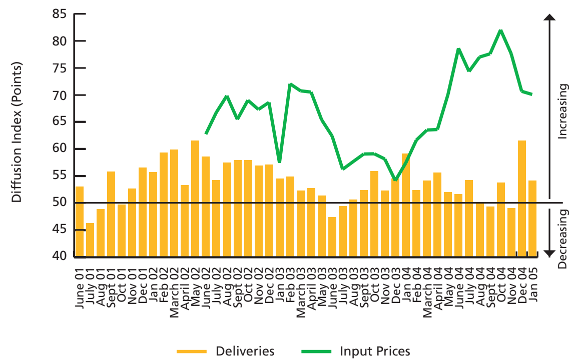
FINISHED STOCKS

- Stocks rose at their fastest pace since August 2002 in January 2005, pointing to the strength of demand evident in December 2004 not carrying though to the New Year. The seasonally adjusted stocks index strengthened from 53.7 points in December 2004 to 55.5 in January.
- Prior to seasonal adjustment, six sectors recorded higher stocks, down from seven in December 2004 (but higher than the five recording increases in January 2004). Stock rises were greatest in food & beverages and construction materials.
- Stock declined in five sectors, with falls greatest in textiles, clothing & footwear and wood, wood products & furniture. Stocks were unchanged in the paper, printing & publishing sector.
- Prior to seasonal adjustment, stocks rose in NSW, Victoria and SA.



DELIVERIES AND INPUT COSTS

- Consistent with the easing in production, deliveries moderated from 61.6 in the previous month to 54.2.
- Only three sectors however – food & beverages, fabricated metals and machinery & equipment – recorded unadjusted rises in deliveries, down from 11 in December 2004.
- Falls were greatest in clothing & footwear, wood, wood products & furniture and chemicals, petroleum & coal products.
- The input cost index declined from 70.6 points to 70.0 in January, largely reflecting easing pressures in textiles and chemicals, petroleum & coal products.
- By contrast, cost increases were strongest in basic and fabricated metals, as well as miscellaneous manufacturing.



NATIONAL INDEXES

	Jan 05	Jan 04	Dec 04	Nov 04	Oct 04	Sept 04	Aug 04	July 04	June 04	May 04	Apr 04
AUSTRALIAN PMI™	54.9	56.6	60.8	53.1	53.3	52.2	51.7	54.0	52.0	52.7	58.5
PRODUCTION	55.5	56.9	63.4	52.9	56.8	52.1	53.4	53.5	51.9	54.1	63.2
NEW ORDERS	57.2	59.0	62.6	55.6	53.1	53.5	51.5	55.7	53.8	55.1	61.8
EMPLOYMENT	50.9	53.4	57.7	54.5	50.9	52.6	51.5	51.9	51.7	49.7	54.6
INVENTORIES	55.5	51.6	53.7	49.0	48.9	52.2	50.7	54.0	47.7	49.5	49.2
DELIVERIES	54.2	59.2	61.6	49.1	53.8	49.4	50.2	54.2	51.6	52.0	55.7
EXPORTS	50.2	n/a	57.9	47.1	52.8	49.1	52.1	48.1	n/a	n/a	n/a
INPUT PRICES	70.0	57.4	70.6	77.6	82.0	77.5	76.9	74.3	78.6	70.0	63.6

Results are based responses from 210 companies from the Survey of Australian Manufacturing. An Evaluation of the Australian PMI prepared by the Melbourne Institute of Applied Economic and Social Research can be obtained from the Ai Group web site on www.aigroup.asn.au.
* New seasonal adjustments were applied to data in July 2004

WHAT IS THE PMI?

The **Australian Performance of Manufacturing Index (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.
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