

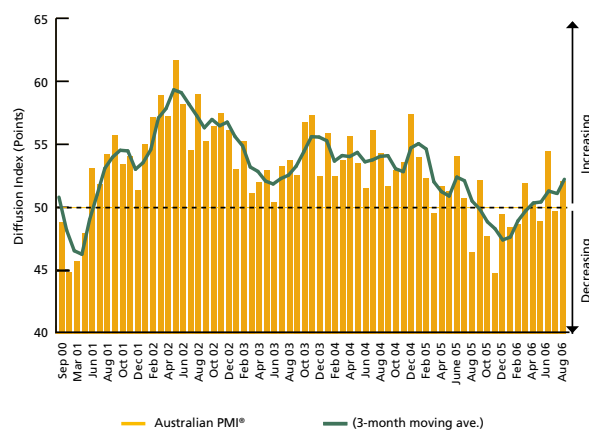
PERFORMANCE OF MANUFACTURING INDEX®

AUGUST 2006

# ACTIVITY IMPROVES DESPITE HIGHER COST PRESSURES

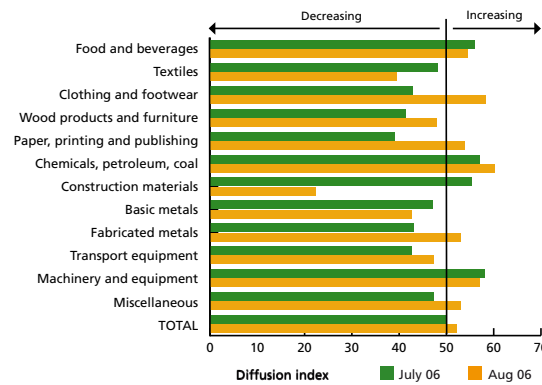
## KEY FINDINGS

- Growth improved in the manufacturing sector in August, with the Australian Industry Group/PricewaterhouseCoopers **Australian PMI®** rising 2.4 points to 52.1 (seasonally adjusted), and above the 50.0 level separating expansion from contraction.
- Cost pressures however, rose as raw material costs jumped sharply in August, following two months of moderating increases.
- Production growth strengthened slightly in the month, driven by the combination of a rise in new orders, stronger export growth, and the second consecutive small fall in inventories. Correspondingly, growth in supplier deliveries accelerated, while the rate of labour shedding eased.
- Activity expanded in seven of 12 sectors, up from four in July.
- Growth was reported in New South Wales (the sixth consecutive month of expansion), Queensland, South Australia and Tasmania, while activity was broadly unchanged in Western Australia (although following a sharp rise the previous month). Activity fell for the second consecutive month in Victoria. By contrast, only three states reported growth in July.



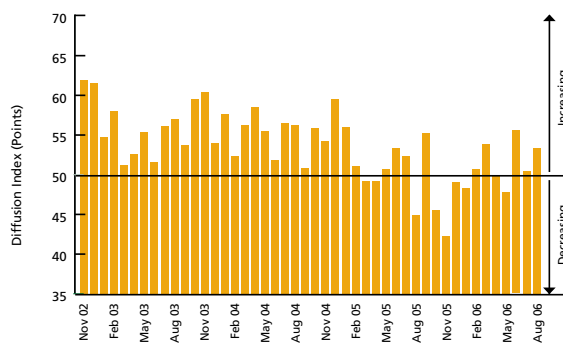
## SECTORS

- Among the seven sectors to report expansions in activity (seasonally adjusted), growth was strongest in chemicals, petroleum & coal products. Growth also resumed in clothing & footwear; paper, printing & publishing; fabricated metal products; and miscellaneous manufacturing, following contractions in all four sectors the previous month.
- Furthermore, activity continued to expand in food & beverages and machinery & equipment, although easing from the previous month.
- By contrast, the sharpest contraction in activity was in construction material products. The rate of decline also continued to accelerate in the textiles and basic metals products sectors.
- Activity declined further in wood, wood products & furniture and transport equipment, although at a slower rate than in July.



## PRODUCTION

- Seasonally adjusted, the production sub-index rose 3.0 points in August to 53.5. In unadjusted terms, the number of sectors reporting growth in production increased from two to five.
- The strongest expansion was in machinery & equipment, following a large increase also in July. Relatively strong gains were also reported in clothing & footwear; paper, printing & publishing; and chemicals, petroleum & coal products, following falls in all three the previous month. Production continued to expand at a more moderate pace in food & beverages.
- By contrast, the steepest fall was in construction material products, following a sharp fall also in July. Production also fell at a faster rate in both textiles and wood, wood products & furniture.
- The rate of decline eased in transport equipment, while fabricated metals reported a small fall following flat growth the previous month. Production was steady in basic metal products and miscellaneous manufacturing.



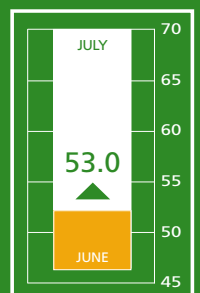
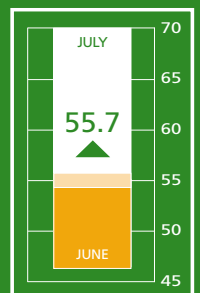
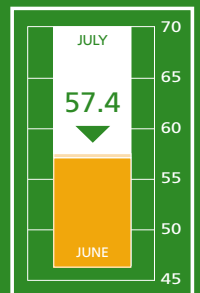
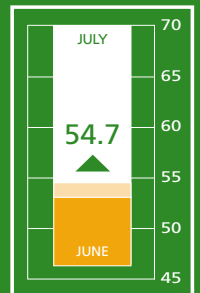
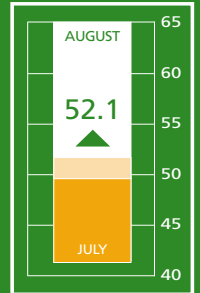
AUSTRALIAN PMI®

USA ISM PMI

EUROZONE PMI

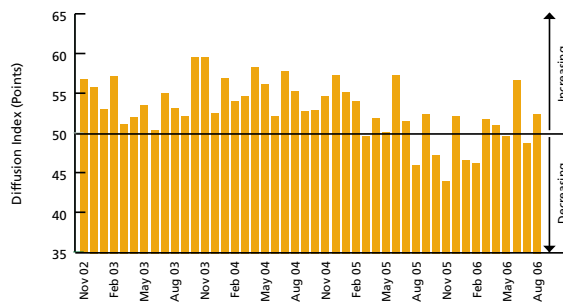
JAPANESE PMI

CHINESE PMI



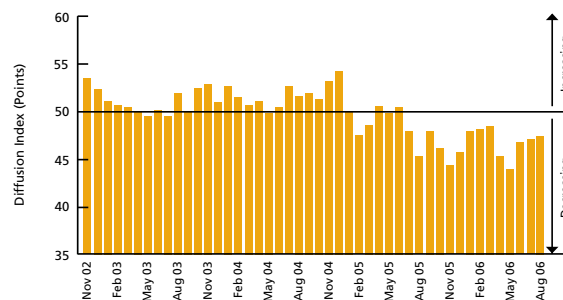
## NEW ORDERS

- New orders recovered moderately in August, the seasonally adjusted new orders sub-index rising 3.7 points to 52.9. Unadjusted, five sectors reported increases, up from four.
- The largest increase was in clothing & footwear, possibly reflecting the seasonal introduction of new fashion apparel. Growth also resumed in the paper, printing & publishing and chemicals, petroleum & coal product sectors, following falls in July.
- Growth abated moderately in food & beverages and machinery & equipment, while orders were steady in transport equipment.
- The largest fall was in construction material products (after a small rise in July), while textiles; wood, wood products & furniture; and miscellaneous manufacturing all reported further declines. Orders also fell in the basic and fabricated metal product sectors, after moderate growth previously.



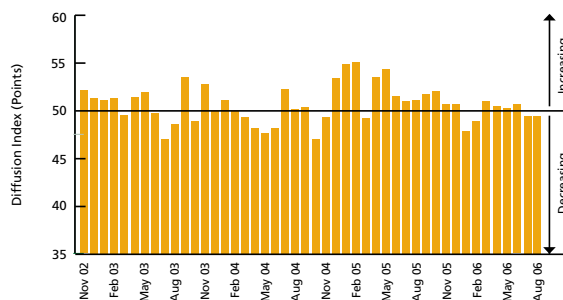
## EMPLOYMENT

- Employment fell for the 14th consecutive month, although the rate of decline slowed slightly. Seasonally adjusted, the employment sub-index rose 0.4 points to 47.7.
- Only food & beverages and machinery & equipment reported increases (unadjusted), up from just one sector previously.
- However, after increasing in July, employment was steady in chemicals, petroleum & coal products. Employment also steadied in paper, printing & publishing and miscellaneous manufacturing, following falls the previous month.
- Of the seven sectors to report further falls, the rate of decline accelerated in construction material products; transport equipment; and basic metal products. By contrast, the rate of job shedding slowed in textiles; clothing & footwear; wood, wood products & furniture; and fabricated metals.



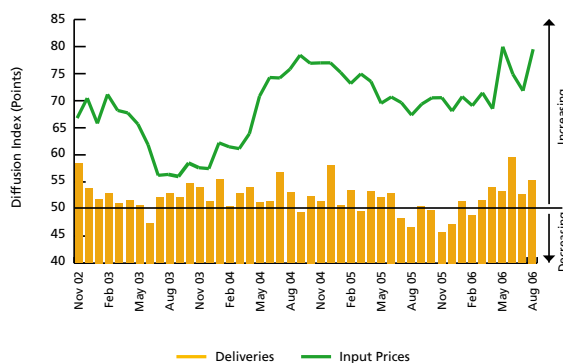
## FINISHED STOCKS

- Manufacturing inventories fell marginally for the second consecutive month, with the seasonally adjusted stocks sub-index unchanged at 49.8.
- Unadjusted, inventories rose in five sectors, up from four in July. The largest increase was in wood, wood products & furniture, following a large rise also the previous month.
- Further increases were also recorded in chemicals, petroleum & coal products and machinery & equipment. Moreover, following sharp falls the previous month, stocks rose in clothing & footwear and miscellaneous manufacturing.
- The largest fall was in textiles, while other sectors to report continuing declines were paper, printing & publishing; basic and fabricated metal products; and transport equipment. Renewed declines were reported in food & beverages and construction material products.



## DELIVERIES AND INPUT COSTS

- Growth in supplier deliveries strengthened in August, corresponding with the lift in demand and production. The seasonally adjusted supplier deliveries sub-index increased 2.6 points to 55.3.
- Unadjusted, deliveries increased in seven sectors (up from four), fell in four, and were unchanged in one.
- Raw material cost increases also accelerated sharply in August, the input cost sub-index jumping 7.7 points to 79.6. The August reading was only a little lower than the series high of 80.0, recorded in May 2006.
- Input costs again increased in all 12 sectors, with the largest rises in wood, wood products & furniture and machinery & equipment. A further six sectors reported faster increases than in July, comprising food & beverages; textiles; paper, printing & publishing; construction materials; basic metals; and transport equipment.
- Costs increased at around the same rate in fabricated metals, but slowed in the other three sectors. By comparison, costs accelerated in only four sectors in July.



## NATIONAL INDEXES

	Aug 06	Aug 05	Jul 06	Jun 06	May 06	Apr 06	Mar 06	Feb 06	Jan 06	Dec 05	Nov 05	Oct 05
<b>AUSTRALIAN PMI*</b>	52.1	46.4	49.7	54.5	48.9	50.3	51.9	48.7	48.4	49.5	44.8	47.7
<b>PRODUCTION</b>	53.5	45.0	50.5	55.6	48.0	50.0	54.1	50.9	48.4	49.2	42.4	45.6
<b>NEW ORDERS</b>	52.9	46.4	49.2	57.3	50.2	51.6	52.4	46.7	47.1	52.8	44.4	47.7
<b>EMPLOYMENT</b>	47.7	45.5	47.3	47.0	44.2	45.6	48.8	48.5	48.3	46.0	44.6	46.5
<b>INVENTORIES</b>	49.8	51.6	49.8	50.9	50.7	50.9	51.5	49.3	48.2	51.1	51.1	52.5
<b>DELIVERIES</b>	55.3	46.6	52.7	59.5	53.2	54.0	51.7	48.8	51.3	47.2	45.8	49.8
<b>INPUT PRICES</b>	79.6	67.4	71.9	75.0	80.0	68.6	71.5	69.2	70.8	68.2	70.6	70.6
<b>EXPORTS</b>	56.6	44.7	50.7	51.1	47.9	57.5	51.8	44.4	46.4	50.1	52.1	49.1

**Further Information:** Results are based on responses from approximately 200 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 website on [www.aigroup.asn.au](http://www.aigroup.asn.au).

\* New monthly seasonal adjustment factors derived directly from an X-12 estimation process were applied in April 2006

## 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](http://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, Industrial Products Leader.

**PRICEWATERHOUSECOOPERS**

## CONTACT

Heather Ridout  
Chief Executive  
Ai Group  
work 02 9466 5504

Graeme Billings  
Industrial Products Leader  
PricewaterhouseCoopers  
work 03 8603 3007  
mobile 0408 572 729

NTC Economics  
[www.ntceconomics.com](http://www.ntceconomics.com)

© The Australian Industry Group, 2006  
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 a person relying in whole or in part upon the contents of this publication.