AUSTRALIAN

PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN INDUSTRY GROUP

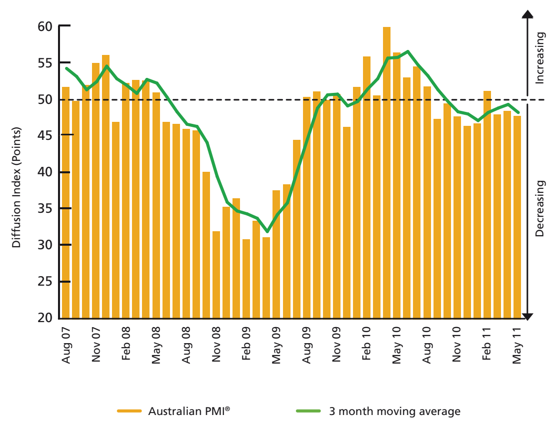
pwc

MAY 2011

MANUFACTURING CONTRACTION CONTINUES IN MAY

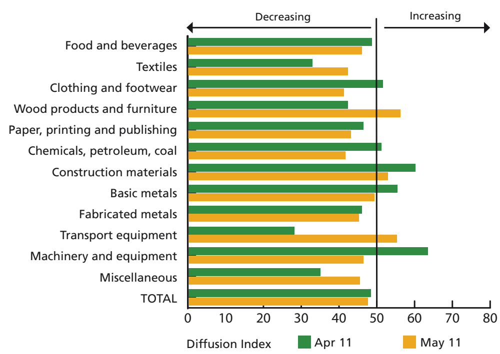
KEY FINDINGS

- Manufacturing activity remained in negative territory in May with the seasonally adjusted Australian Industry Group-PwC **Australian PMI®** down slightly by 0.7 points to 47.7 to remain below the 50-point level separating expansion from contraction.
- The manufacturing sector was weighed down by significant contractions in the clothing & footwear; chemical, petroleum and coal products; paper, printing & publishing sub-sectors, and, to a smaller extent, in the fabricated metals; machinery & equipment; food & beverages; and miscellaneous manufactures sub-sectors.
- Survey respondents cited soft domestic demand, the strong Australian dollar and increased import competition as factors inhibiting the manufacturing sector.
- Wages and input costs continued rising in May, while selling prices dipped again, suggesting that manufacturing profit margins continued to narrow.
- Manufacturing activity contracted in all states except Western Australia and Tasmania.



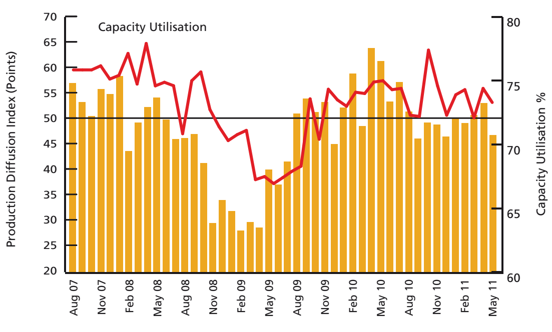
SECTORS

- Seasonally adjusted, nine out of the 12 manufacturing sub-sectors recorded declines in activity in May, up from seven in April. The clothing & footwear sub-sector recorded the steepest contraction in activity, followed by the chemical, petroleum & coal products sub-sector.
- The decline in activity was especially pronounced in these sub-sectors due to the strong Australian dollar, soft domestic demand and cheaper imports.
- The wood products & furniture, construction materials and transport equipment sub-sectors recorded expansions during May.

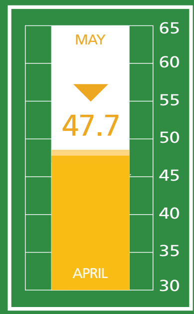


PRODUCTION AND CAPACITY

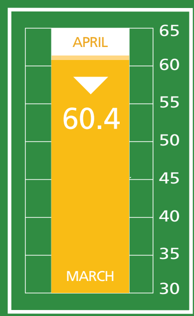
- Seasonally adjusted, the production sub-index fell 6.4 points to 46.9, indicating that manufacturing output contracted in May.
- The decrease in manufacturing output was led by declines in production in the chemical, petroleum & coal products; textiles; clothing & footwear; and fabricated metals sub-sectors.
- The strong decline in production in these sub-sectors was only partly offset by an increase in output in the transport equipment sub-sector.
- On an unadjusted basis, the number of sub-sectors reporting declines in production rose to nine in May, up from eight in April.
- Overall, capacity utilisation fell in May, by 1.1 percentage points to 73.3%, largely reflecting the reduction in capacity utilisation in the clothing & footwear sub-sector.



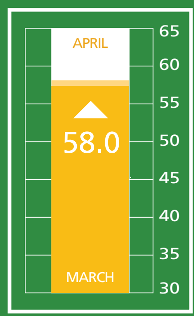
AUSTRALIAN PMI®



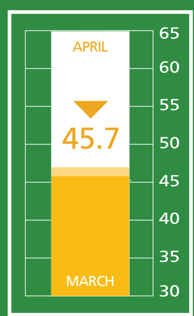
USA ISM PMI



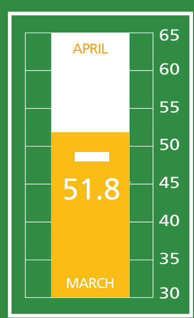
EUROZONE PMI



JAPANESE PMI

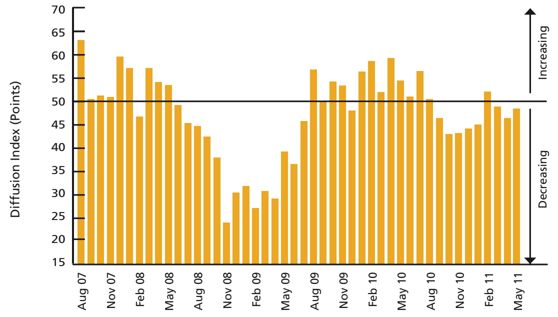


CHINESE PMI



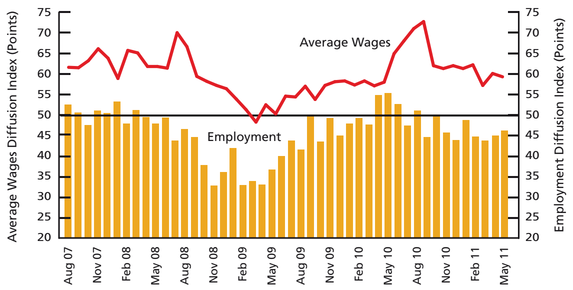
NEW ORDERS

- In seasonally adjusted terms, the new orders sub-index rose 2.2 points to 48.6 in May, marking the third consecutive month of decline in new orders for the manufacturing sector.
- Unadjusted, new orders dropped in seven of the 12 sub-sectors.
- The textiles; chemicals, petroleum & coal products; and paper, printing & publishing sub-sectors recorded the largest declines in new orders.



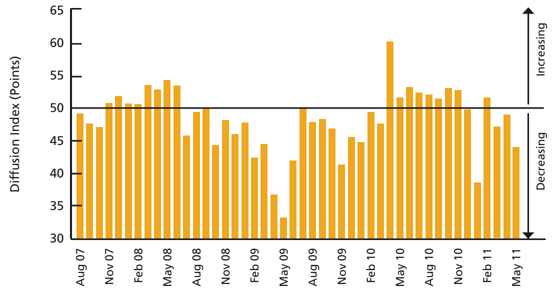
EMPLOYMENT AND AVERAGE WAGES

- The seasonally adjusted employment sub-index increased 1.4 points to 46.4 in May, remaining below the 50.0 level separating expansion from contraction, and marking the seventh straight month of decline in manufacturing employment.
- Sharp declines in employment were recorded in the paper, printing & publishing; textiles; and clothing & footwear sub-sectors.
- Despite the continued declines in employment in the manufacturing sector over recent months, the wages sub-index only fell slightly, with the sub-index down 0.8 points to 59.3 in May, indicating a moderate easing of the pace of wage rises.



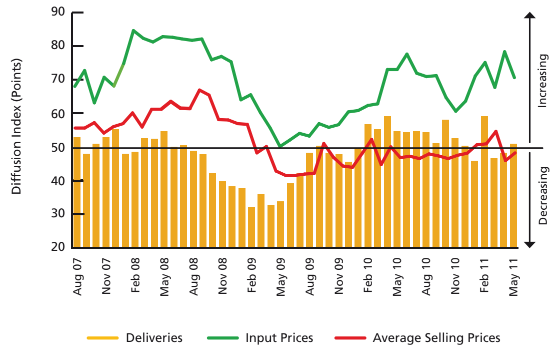
FINISHED STOCKS

- Manufacturing inventories decreased in May, with the seasonally adjusted sub-index falling by 4.9 points to 44.4 and remaining below 50.0.
- Inventories declined most strongly in food & beverages; construction materials; and fabricated metals sub-sectors.
- The clothing & footwear sub-sector was the only sub-sector that recorded an increase in inventories.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- In seasonally adjusted terms, supplier deliveries in May increased slightly, with the sub-index rising by 2.6 points to 50.9.
- Unadjusted, deliveries rose in four sub-sectors, construction materials recording the strongest gain. The paper, printing & publishing and transport equipment sub-sectors also recorded increases in deliveries, albeit more moderately.
- The increase in input costs moderated in May, with the seasonally adjusted sub-index falling 7.7 points to 70.7. All sub-sectors, except construction materials, recorded strong increases in input costs.
- The fall in selling prices moderated in May, as the sub-index rose 2.3 points to 48.3.



AUSTRALIAN PMI®

	May 2011	April 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PMI®	47.7	48.4	-0.7	Contracting	Faster	3
PRODUCTION	46.9	53.3	-6.4	Contracting	From expanding	1
EMPLOYMENT	46.4	45.0	1.4	Contracting	Slower	7
NEW ORDERS	48.6	46.4	2.2	Contracting	Slower	3
INVENTORIES	44.4	49.3	-4.9	Contracting	Faster	3
SUPPLIER DELIVERIES	50.9	48.3	2.6	Expanding	From contracting	1
INPUT PRICES	70.7	78.4	-7.7	Expanding	Slower	108
EXPORTS	43.1	49.5	-6.4	Contracting	Faster	8
SELLING PRICES	48.3	46.0	2.3	Contracting	Slower	2
AVERAGE WAGES	59.3	60.1	-0.8	Expanding	Slower	25
CAPACITY UTILISATION (%)	73.3	74.4	-1.1 pts	Lower	na	na

Further Information Results are based on responses from over 200 companies from a rotating sample of manufacturers. An evaluation of the Australian PMI as well as other economic research and analysis can be obtained from the Ai Group website on http://www.aigroup.com.au/economics.
Results for capacity utilisation, average wages and output prices to June 2007 based on quarterly surveys. From this point data will be collected in the monthly PMI survey.
** Number of months moving in current direction.
New monthly seasonal adjustment factors derived directly from the Australian Bureau of Statistics were applied in April 2011.
Visit http://www.aigroup.com.au/economics for further economic analysis and information.

WHAT IS THE AUSTRALIAN PMI®?

The Australian Industry Group - PwC Australian Performance of Manufacturing Index **(Australian PMI®)** is a seasonally adjusted 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 is indicative of the strength of the expansion or decline. Survey results are based on a rotating sample of manufacturing companies each month.

More information can be obtained from the Ai Group website www.aigroup.com.au.

SPONSOR STATEMENT

PwC 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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