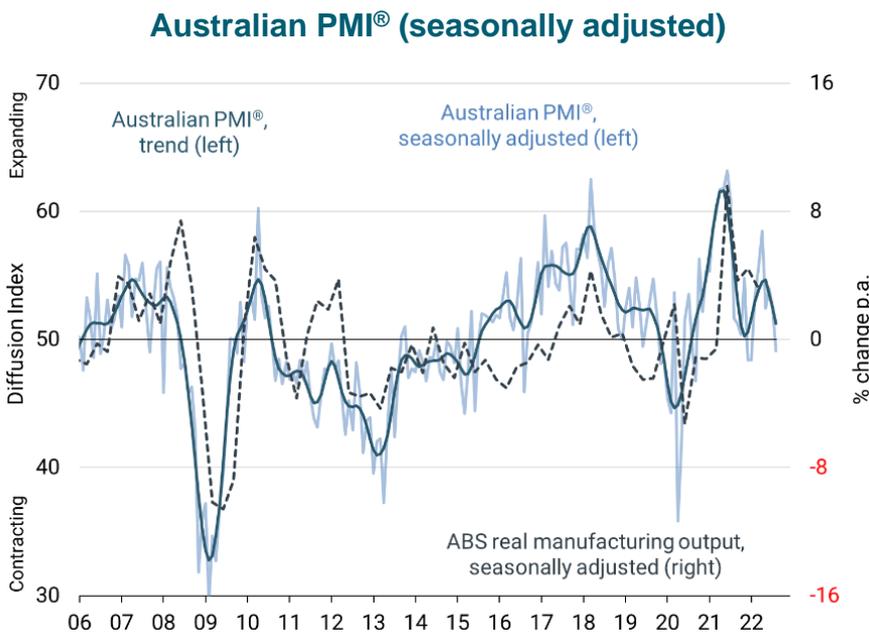


Signs of manufacturing slowing in August

Key findings

- Manufacturing fell to be broadly stable in August for the first time in six months. Activity was lower in all sectors but chemicals and TCF, paper and printing.
- Labour challenges and supply chain disruption continue to plague manufacturing as in previous months. While new orders continued to grow in August the pace of growth eased and sales fell, indicating a negative direction for demand. Most manufacturing activity indicators contracted at an accelerating rate. The falling employment index reflects labour shortage pressures, with wages rising sharply.
- Manufacturing exports declined further; businesses reported volatile export demand.

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI[®]**) dropped 3.2 points to 49.3 points in August 2022, indicating a slight contraction (seas. adj.). This is the first time the index has contracted since January 2022 following the Omicron outbreak during the summer break. Results below 50 points indicate contraction, with lower results indicating a faster rate of contraction.



August 2022

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Australian PMI[®]

▼ 3.2 points
(seasonally adjusted)

49.3

Australian PMI[®]

▼ 1.3 points (trend)

51.3

Food & beverages

▼ 4.9 points
(seasonally adjusted)

45.1

Machinery & equipment

▼ 3.9 points
(seasonally adjusted)

44.9

Metal products

▼ 8.7 points
(seasonally adjusted)

42.4

Chemicals

▲ 7.1 points
(seasonally adjusted)

62.1

Building materials, wood & other

▼ 2.4 points
(seasonally adjusted)

43.3

TCF, paper & printing

▼ 0.9 points
(seasonally adjusted)

58.5

Manufacturing sectors: Four of the six manufacturing sectors in the **Australian PMI®** contracted in August 2022. The index for the machinery & equipment sector is the lowest it has been since April 2020 at the start of the COVID-19 pandemic. Manufacturers in this sector reported very weak sales and significant supply chain difficulties. The TCF, paper & printing sector eased but remained in expansion. The chemical products sector expanded at an accelerating pace. (seas. adj.).

Manufacturing wages and prices: The **Australian PMI®** input price index accelerated in August following a sharp decline in July (seas. adj.). Manufacturers' selling prices increased as some businesses continue to pass through higher input costs. The **Australian PMI®** average wages index spiked in August after temporarily declining in July but it is slightly below the peak recorded for this series in May (seas. adj.).

Manufacturing activity: Six of the seven activity indexes contracted in August (results below 50 points). The new orders index was the only one to expand; it grew at a slower pace than in July. Inventories fell into contraction for the first time since February 2021. The employment index declined following three months of broad stability. The sales index which had bounced into growth in July plunged back into contraction.

Manufacturing highlights: Some respondents indicated strong activity from defence, housing, automotive after-market, and agriculture sectors. A few businesses noted strong demand, particularly from original equipment manufacturing businesses. Some manufacturers are still able to pass through some of the higher input costs to their customers.

Manufacturing concerns: Some manufacturers noted softer demand from construction businesses and generally weak conditions overall. Volatile export demand, poor weather conditions, energy prices, stronger inflation, higher input prices and materials shortages contributed to weak conditions in August. Labour shortages were a key concern including staff absenteeism due to illnesses, lower retention rates, higher labour costs and fewer people available to work. Some businesses noted that lead times for deliveries were increasing again.

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®	49.3	-3.2	50.9	Australian PMI®	51.3	-1.3	50.9
<i>seasonally adjusted</i>				<i>seasonally adjusted</i>			
Production	45.7	-1.8	51.6	Food & beverages	45.1	-4.9	53.6
Employment	47.5	-2.6	49.2	Machinery & equipment	44.9	-3.9	50.5
New Orders	55.8	-4.1	51.8	Metals products	42.4	-8.7	47.7
Supplier Deliveries	47.1	-0.3	50.8	Petroleum, coal, chemicals			
Finished stocks	45.9	-9.2	50.0	& rubber products	62.1	7.1	51.8
Exports	46.9	-4.3	50.0	Building, wood, furniture			
Sales	45.2	-8.8	49.7	& other products	43.3	-2.4	50.3
Input Prices	81.7	2.0	68.4	Textiles, clothing, footwear,			
Selling Prices	69.1	4.6	50.1	paper & printing	58.5	-0.9	48.8
Average Wages	74.1	11.3	59.3				
Capacity Utilisation (%)	78.5	-3.4	74.6				

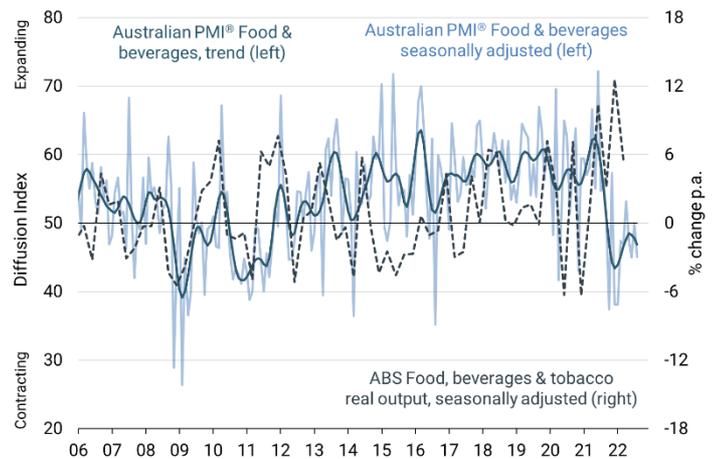
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 Jun 2022	131.2	5.3	11.9	22.0% 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.

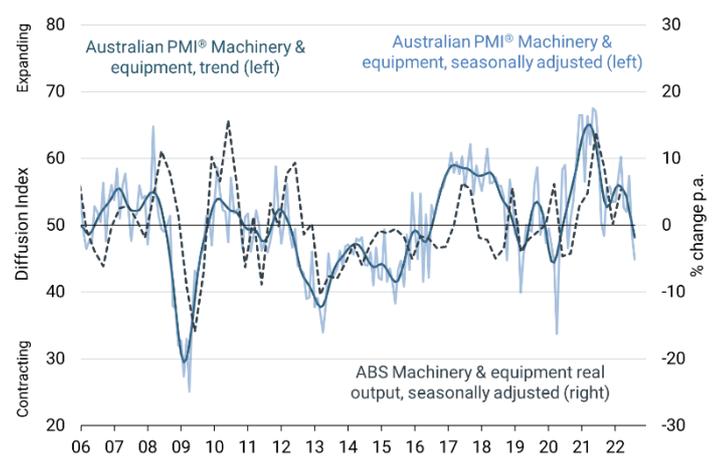
Food & Beverages

- The food and beverages (& tobacco) sector produced \$29.8bn in real value-added output in the year to Q1 2022 (25% of manufacturing real value-added output). It employed 240,000 people in May 2022 (27% of manufacturing employment, ABS data). It is Australia’s largest manufacturing sector.
- The index for food and beverages fell by 4.9 points to 45.1 points in August, indicating very weak conditions (seas. adj.).
- Respondents noted shortages of skilled labour, lower customer demand, and delays in supplies of materials. Some manufacturers indicated that supplies of meat products had increased but seafood decreased. Some businesses reported volatile export demand.



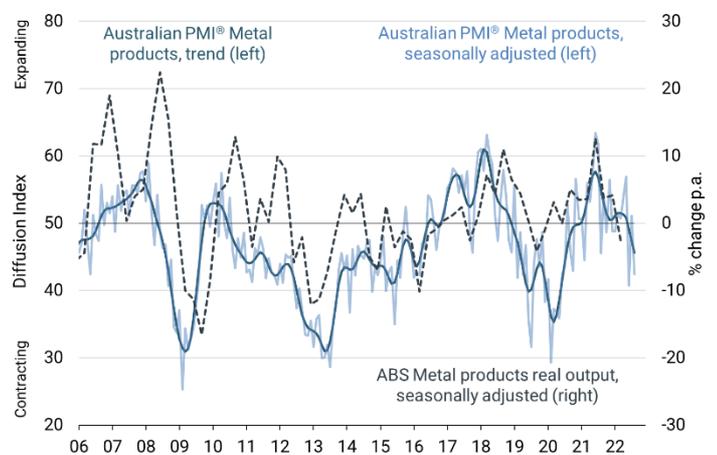
Machinery & Equipment

- 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 declined by 3.9 points to 44.9 points in August, indicating a further contraction (seas. adj.).
- Unreliable labour supply, shortage of replacement motors and higher input costs contributed to weak conditions. Businesses indicated that delivery times had increased again. However, some respondents noted that there was strong activity from defence, housing, automotive after-market, and agriculture sectors.



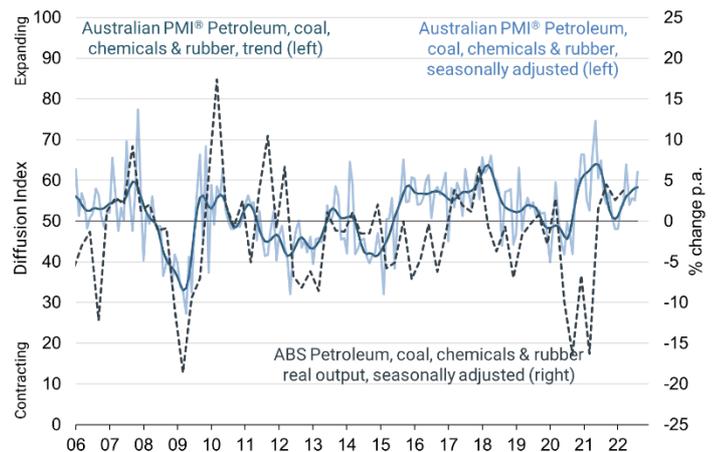
Metal Products

- 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 plunged by 8.7 points to 42.4 points, indicating weak conditions in August (seas. adj.).
- Labour shortage, supply chain difficulties, energy prices, high cost of labour and lower demand from some construction customers inhibited sales for metal products in August. Input costs for materials such as steel, and insulation impacted activity.



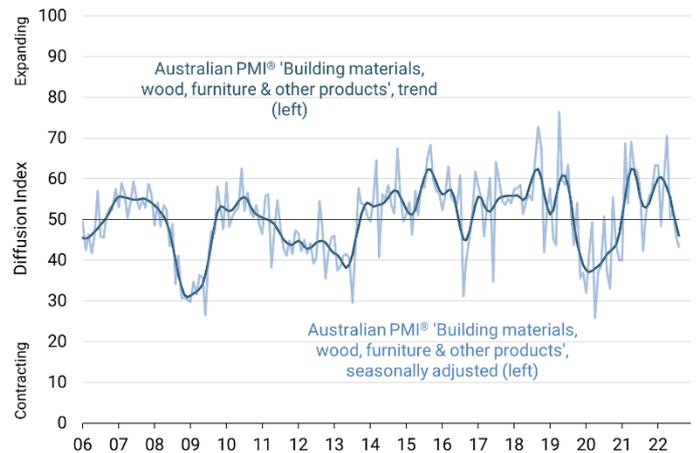
Petroleum, coal, chemicals & rubber

- 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 grew by 7.1 points to 62.1 points in August, indicating a faster pace of expansion in the month (seasonally adjusted).
- Weak exports, poor weather conditions, low staff retention rate, energy prices, shipping delays, increased wages and input prices were key concerns for chemical products manufacturers in August.



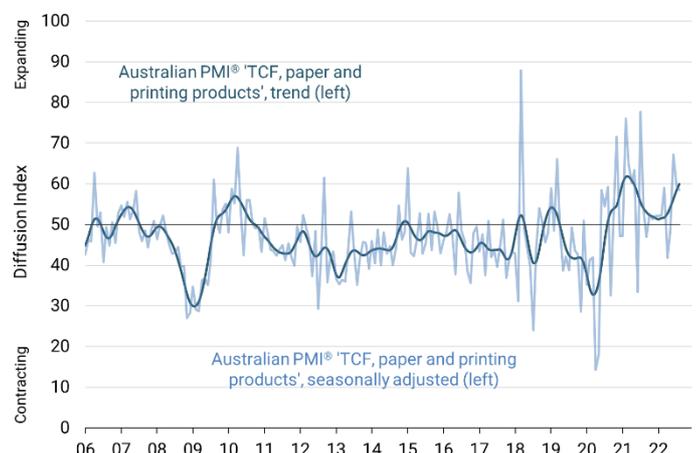
Building materials, wood, furniture & other manufacturing products

- 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 and other manufacturing' sector eased by 2.4 points to 43.3 points in August, indicating a faster rate of contraction and the lowest result since August 2021 (seasonally adjusted).
- Businesses reported a lack of orders, softer demand from construction businesses, staff shortages, higher costs of labour and shipping delays impacted conditions in August.



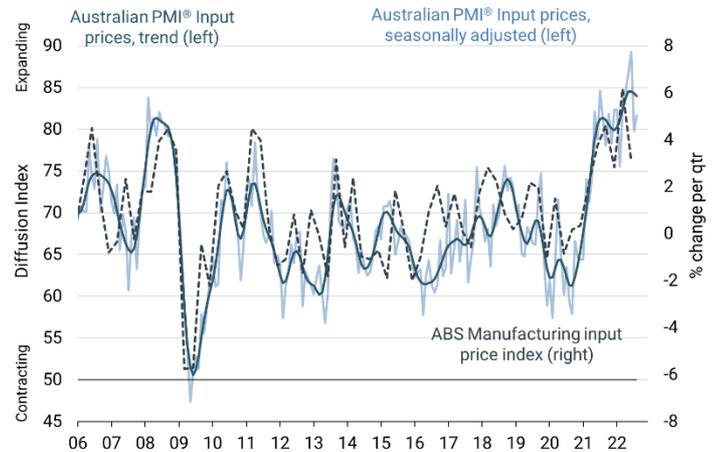
TCF, paper and printing products

- 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 decelerated by 0.9 points to be 58.5 points, indicating a mildly slower pace of expansion in August compared to the previous month (seasonally adjusted).
- Higher interest rates and staff shortages were challenges. Some businesses are able to pass on higher input costs to customers. Government work increased but jobs from private businesses fell.



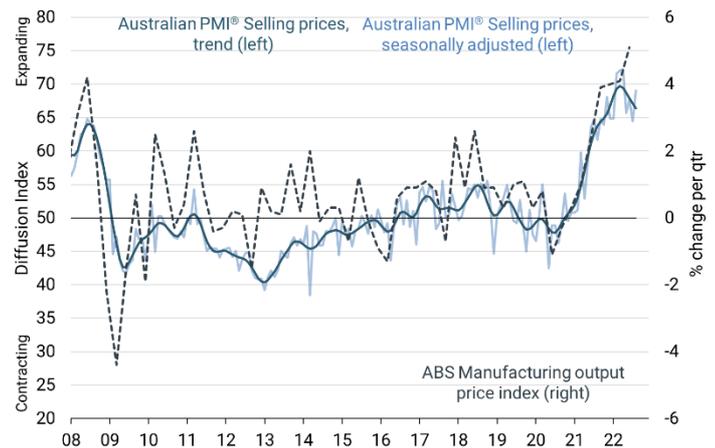
Input prices

- 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 rose by 2.0 points to 81.7 points in August after temporarily declining in July (seas. adj.). Input prices have been elevated across 2021 and 2022 and are well above the long-run average of 68.4 points for this index (since 2003).
- Manufacturers across all segments reported price increases for raw materials, energy, imported inputs and components. Respondents noted that input cost pressures were impacting margins.
- Input prices was elevated across all sectors particularly in TCF, paper and printing products.



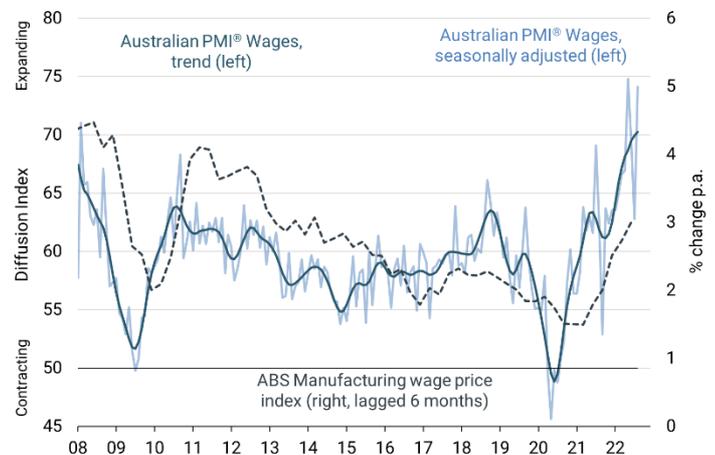
Selling prices

- 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 rose by 4.6 points to 69.1 points in August (seas. adj.). The higher selling price index suggests some manufacturers are still able to pass on some of the higher costs to their customers.
- Respondents reported higher selling prices in the building materials and TCF, paper & printing products sectors. Selling prices expanded in all sectors.



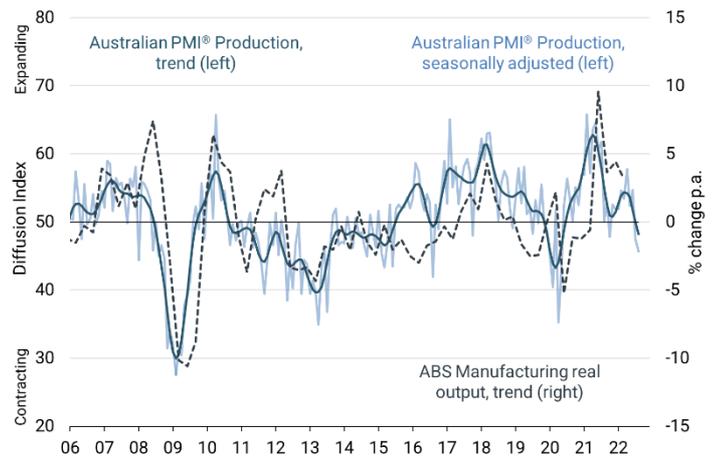
Average wages

- 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 increased by 11.3 points to 74.1 points (seas. adj.), indicating a faster increase in wages across the manufacturing sector, on average, compared to July. The index has been partially volatile since April 2022.
- The average wages index indicated expansion in all sectors (above 50 points) but was stronger in the metal products and building materials sectors.



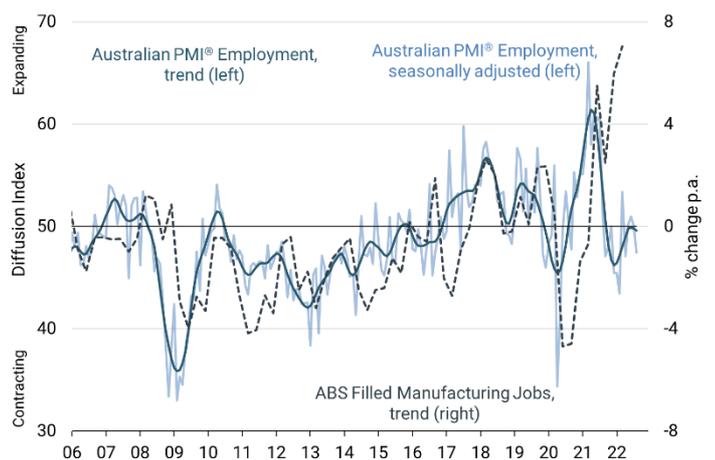
Production

- 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 eased by 1.8 points to 45.7 points in August, indicating a decline in production levels (seas. adj.).
- Production contracted in all sectors except the chemical and TCF, paper & printing products sectors. The index fell into deep contraction in the metals products and building materials sectors. Some manufacturers reported that difficulties obtaining input supplies impacted production level.



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 dropped 2.6 points to 47.5 points in August, indicating contracting conditions in manufacturing employment in August.
- Employment shrunk in the food & beverage, metal products and building materials sectors and was flat in machinery & equipment. Manufacturers reported different forms of labour issues including staff absenteeism due to illnesses, low staff retention rate, higher labour costs and fewer labour supply in Victoria.



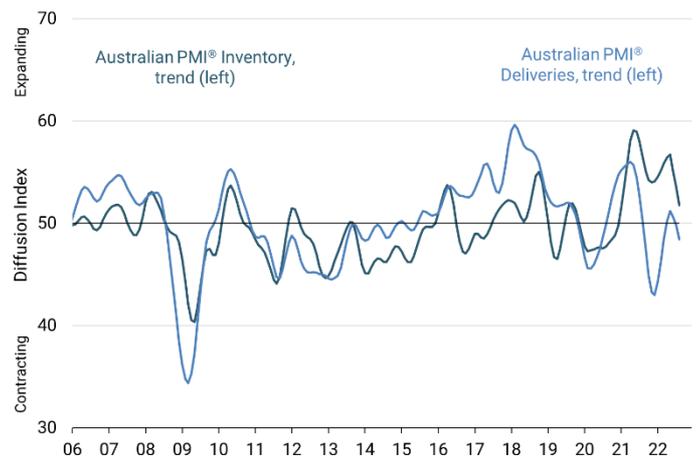
New orders

- The new orders index fell by 4.1 points to 55.8 points, indicating a deceleration in expansion in the month (seas. adj.).
- The deceleration in new orders for Australian manufacturers suggests weaker growth in production and sales in the next few months.
- New orders decelerated in all sectors except in the food & beverage and building materials and were weakest in the machinery & equipment and metal products sectors. Overall manufacturers indicated softer demand.



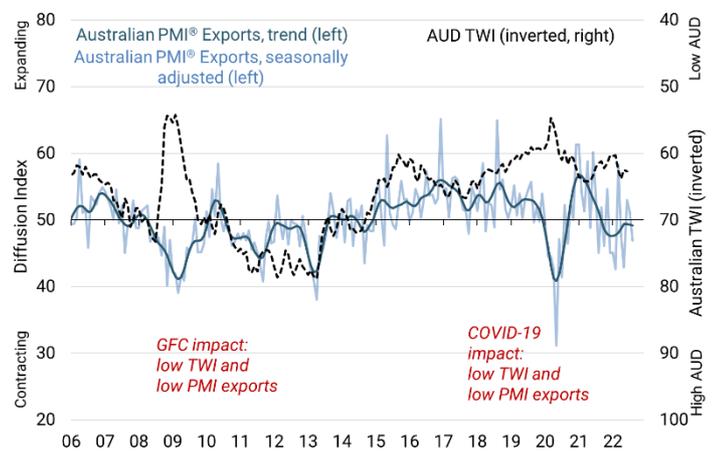
Supplier deliveries & finished stocks

- The supplier deliveries index decelerated by 0.3 point to 47.1 points in August, indicating an easing in the supply of raw materials ordered by manufacturers (seasonally adjusted). Respondents noted that delivery times for raw materials were increasing again.
- The stocks (inventories) index fell by 9.2 point to 45.9 points in August, indicating a contracting supply of raw materials ordered by manufacturers (seasonally adjusted).



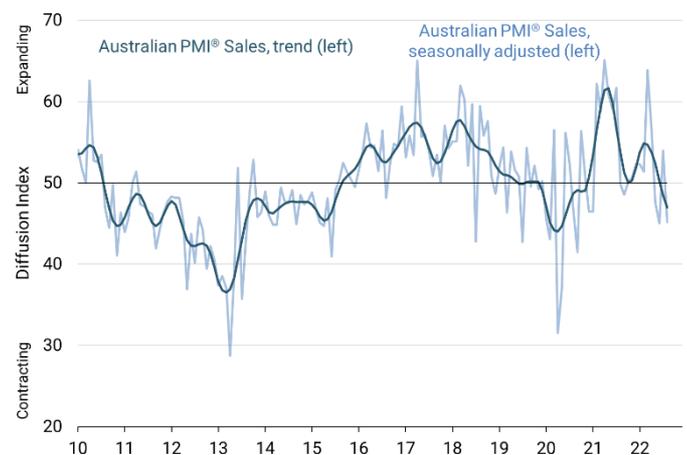
Exports

- Export earnings for Australian manufactured goods were worth \$131.2 bn in the year to June 2022 (22% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index fell by 4.3 points to 46.9 points (seasonally adjusted). This reflects a reversal of the recovery in export sales for manufacturers recorded in June and July.
- Exports contracted in the machinery & equipment, metal products, chemicals and building materials sectors and was flat in food & beverage. Manufacturers reported volatile conditions in export demand and general challenges exporting.



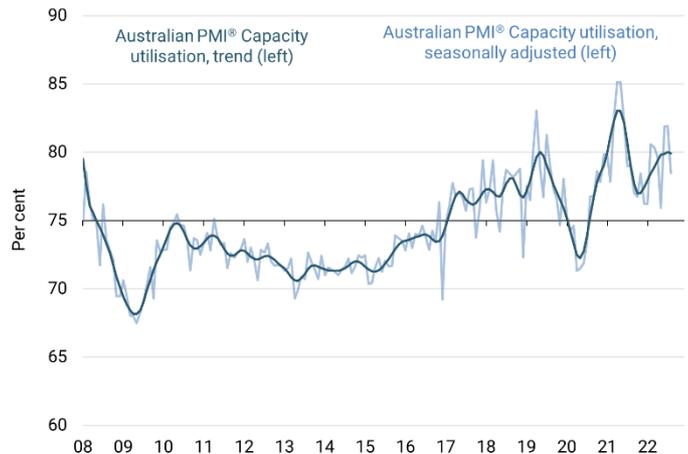
Sales

- The sales index plunged by 8.8 points to 45.2 points in August (seasonally adjusted). This indicates weak conditions in manufacturing sales and continues to reflect the pressure of increased interest rates.
- This result is well below the long-term average of 49.7 points for this index (since 2009).
- Sales contracted in all sectors except in the chemicals and TCF, paper & printing products sectors. Sales was stable in the chemical products sector. Some manufacturers reported that some of their major customers had previously ordered excessively due to poor demand forecasting, this resulted in weak sales in the month.



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 index fell by 3.4 percentage points to 78.5% of available capacity in August (seasonally adjusted). This is above the long-run average for this index of 74.6% (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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