

Manufacturing conditions flat in October

Key findings

- Manufacturing was broadly stable in October, the third month of even results.
- Results were mixed by sector – with consumer-oriented manufacturers performing strongly, but industry-oriented declining.
- New orders was the only activity indicator in expansion in October. All activity indicators except employment declined from September, showing weakening conditions in manufacturing.
- The employment index remains in contraction, reflecting declining production alongside ongoing labour shortages. Input prices continue to grow, but at lower levels than previous months.

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) eased slightly, dropping 0.6 points to 49.6 points in October 2022. This indicates broadly stable conditions (seasonally adjusted). This is the third month of flat conditions, following positive results between February and July. Results below 50 points indicate contraction, with lower results indicating a faster rate of contraction.

October 2022

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Australian PMI®
▼ -0.6 points
(seasonally adjusted) **49.6**

Australian PMI®
▼ -0.8 points (trend) **49.2**

Food & beverages
▲ 6.8 points
(seasonally adjusted) **55.4**

Machinery & equipment
▼ -4.3 points
(seasonally adjusted) **51.1**

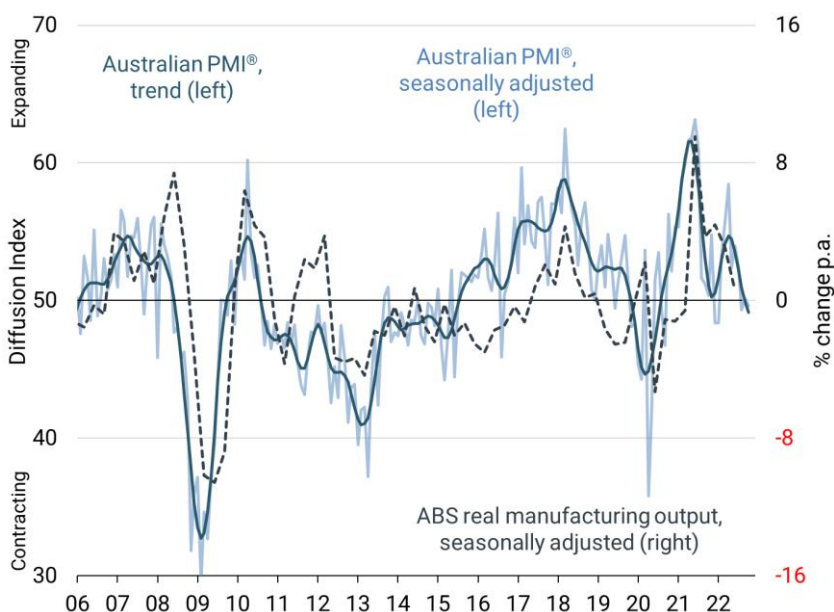
Metal products
▼ -2.0 points
(seasonally adjusted) **42.3**

Chemicals
▼ -13.3 points
(seasonally adjusted) **43.6**

Building materials, wood & other
▲ 5.1 points
(seasonally adjusted) **49.7**

TCF, paper & printing
▲ 13.9 points
(seasonally adjusted) **53.8**

Australian PMI® (seasonally adjusted)



Manufacturing sectors: Three of the six manufacturing sectors in the **Australian PMI®** contracted in October 2022. Food and beverage and TCF, paper and printing both lifted from contraction into growth. Machinery and equipment eased to be mildly positive. These sectors reported positive sales, production and deliveries, but employment was weak. Building products was stable; metal products and declined further and the chemical products sector fell from growth to contraction as new orders, sales and deliveries all declined (seasonally adjusted).

Manufacturing wages and prices: The **Australian PMI®** input price index decelerated in October but remains elevated as it has been across 2021 and 2022 (seasonally adjusted). Manufacturers' selling prices increased but at a slower pace as fewer businesses passed through higher input costs. The **Australian PMI®** average wages index eased back from the series high recorded in September, but wages have been trending above long term averages for most of 2022.

Manufacturing activity: Six of the seven activity indexes contracted in October (results below 50 points). New orders indicated growth but the rate of growth fell back from September. The contraction in employment eased. Deliveries, stocks, exports and sales were all mildly contractionary (seasonally adjusted).

Manufacturing highlights: Food and beverage manufacturing was a bright spot in the sectors as orders, sales and exports were up. TCF, paper and printing also reported lifts in activity, both sectors benefited from earlier than usual demand for festive season orders. Respondents across sectors reported lower levels of absenteeism due to illness.

Manufacturing concerns: Concerns around increased interest rates locally and global economic uncertainty contributed to the flat conditions in October. Labour shortages, skilled and low-skilled, remain a key constraint for manufacturers. Some businesses anticipate demand to soften in the next quarter. Elevated input costs and difficulties with freight were reported across all sectors and locations.

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>							
Australian PMI®	49.6	-0.6	50.9	Australian PMI® trend	49.2	-0.8	50.8
<i>seasonally adjusted</i>							
Production	47.6	-0.1	51.5	Food & beverages	55.4	6.8	53.6
Employment	46.9	7.1	49.1	Machinery & equipment	51.1	-4.3	50.5
New Orders	53.8	-4.0	51.8	Metals products	42.3	-2.0	47.7
Supplier Deliveries	48.3	-4.5	50.8	Petroleum, coal, chemicals & rubber products	43.6	-13.3	51.8
Finished stocks	49.9	-0.1	50.0	Building, wood, furniture & other products	49.7	5.1	50.3
Exports	49.4	-2.1	50.0	Textiles, clothing, footwear, paper & printing	53.8	13.9	48.8
Sales	48.4	-3.0	49.7				
Input Prices	78.0	-6.8	68.5				
Selling Prices	67.5	-2.7	50.3				
Average Wages	71.0	-5.1	59.5				
Capacity Utilisation (%)	79.2	-1.2	74.6				

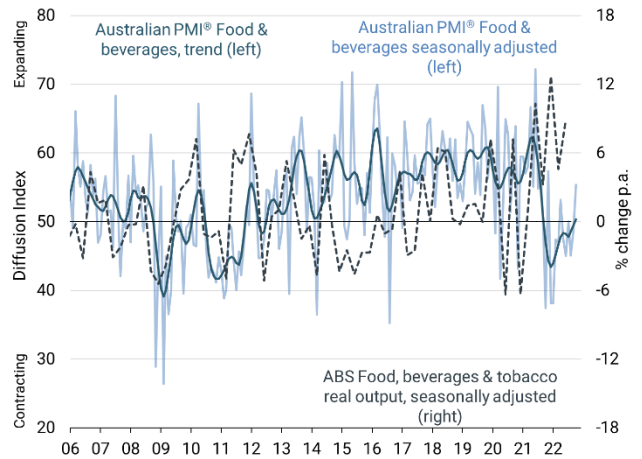
Results above 50 points indicate expansion.

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 Jun 2022	117.0	0.1	2.9	5.6% of total GDP
Nominal sales, \$bn, year to Jun 2022	411.7	1.0	1.1	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to Jun 2022	133.1	4.2	11.8	22.0% of total export earnings
Nominal company profits (GOP), \$bn, year to Jun 2022	46.8	7.5	21.6	8.7% of non-farm company profits
Real investment (CAPEX), \$bn, year to Jun 2022	10.6	0.9	3.9	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Jun 2022	58.0	1.1	3.3	9.2% of non-farm business wages
Manufacturing filled jobs, June 2022	923.3	-1.6	5.7	5.7% 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.

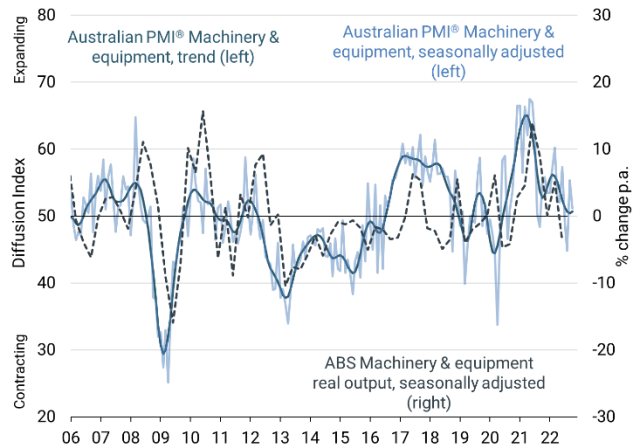
Food & Beverages

- 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 232,000 people in August 2022 (27% of manufacturing employment, ABS data). It is Australia’s largest manufacturing sector.
- The index for food and beverages contracted but the rates of decline rose by 6.8 points to 55.4 points in October, indicating weak conditions (seas. adj.).
- Some respondents noted a lift in orders leading up to the festive season, and an increase in interest from overseas buyers. Freight availability and increased input costs were key concerns in October.



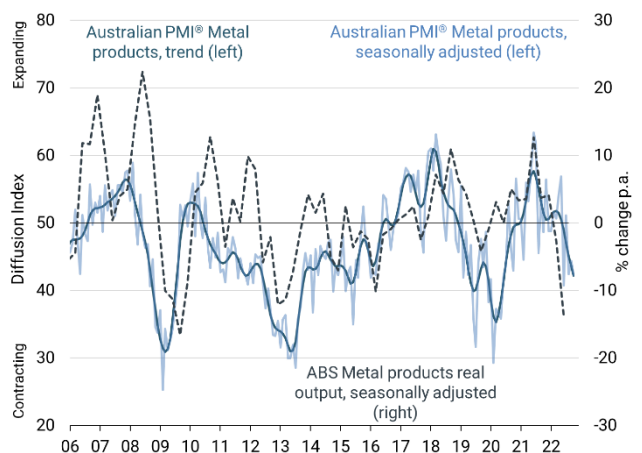
Machinery & Equipment

- 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 186,000 people in August 2022 (22% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector eased by 4.3 points to 51.1 points in October indicating growth following a weak month in August (seasonally adjusted).
- Results were mixed in this sector. Tight labour supply, higher input costs including higher energy costs, and international economic uncertainty concerned some respondents. Others reported an increase in demand - with strong sales and new orders.



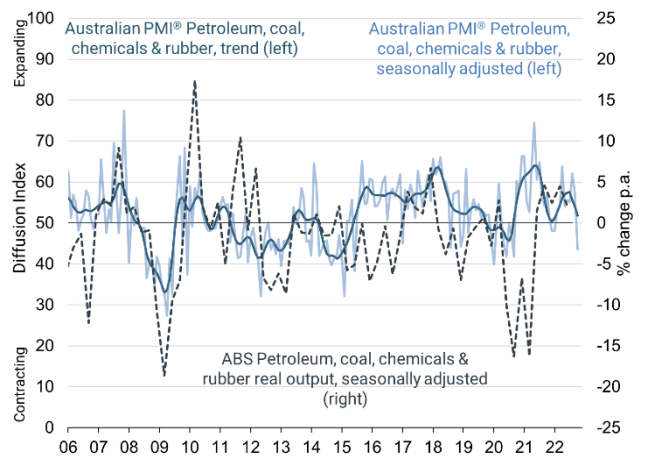
Metal Products

- 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 133,000 people in August 2022 (16% of manufacturing employment, ABS data).
- The contraction in the metal products index increased by 2.0 points to 42.3 points, indicating weak conditions in October (seasonally adjusted).
- Wet weather events, higher energy prices, labour and inputs shortages constrained activity in October. Uncertainty about future demand from the construction sector reduced orders for some respondents, while others noted steady robust sales.



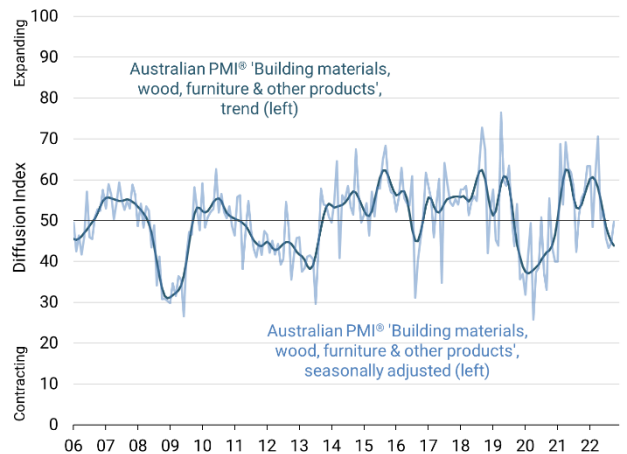
Petroleum, coal, chemicals & rubber

- 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 80,150 people in August 2022 (9% of manufacturing employment, ABS data).
- The chemicals index dropped by 13.3 points to 43.6 points falling from growth in September to contraction in October (seasonally adjusted).
- Higher interest rates, wet weather events, difficulties sourcing inputs from overseas and uncertainty about future demand were key concerns in October.



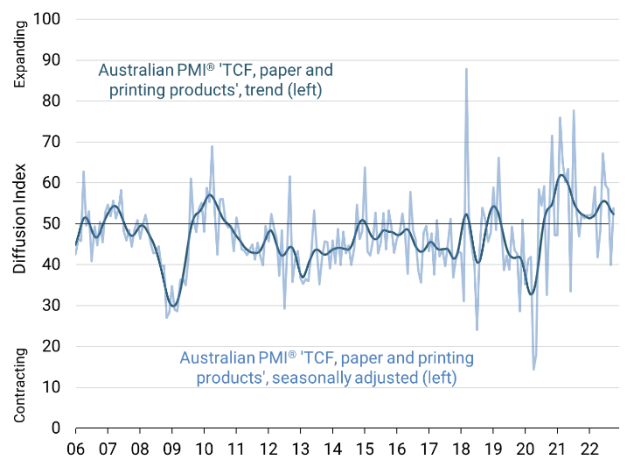
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 138,000 people in August 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 rose by 5.1 points to 49.7 points in October, indicating stable conditions compared to September (seasonally adjusted).
- Results were mixed as some businesses reported strong sales and production, others reported softer demand from. Staff shortages, higher costs of labour and shipping delays impacted conditions in October.



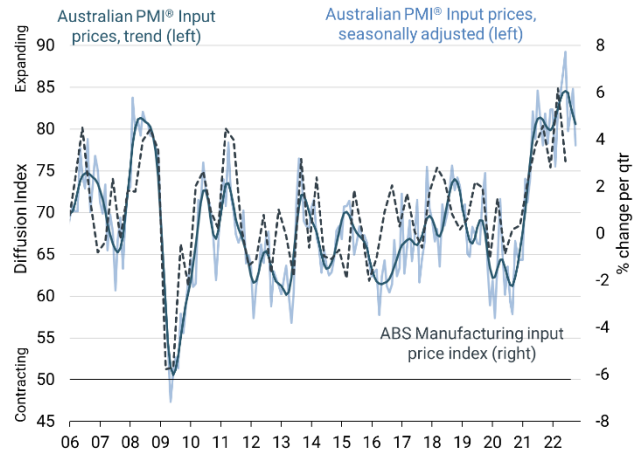
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 76,700 people in August 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 rose by 13.9 points to 53.8 points, indicating a lift from contraction in September to expansion in October (seasonally adjusted).
- Higher prices for inputs and freight, staff shortages and increased average wages were challenges in October. Some businesses reported difficulties in passing on higher costs to customers. Weather events affected some businesses in this sector.



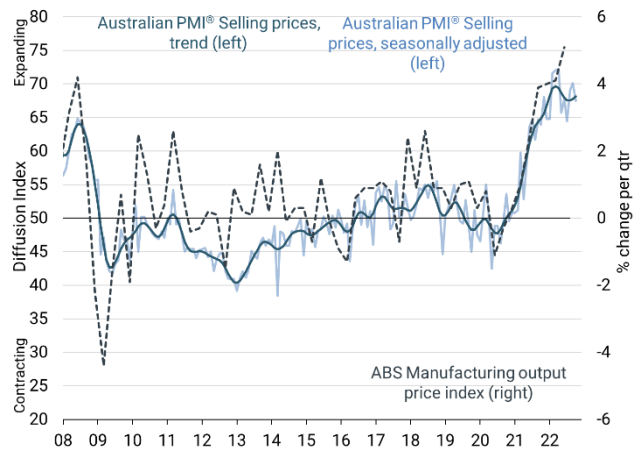
Input prices

- Manufacturers' input prices rose by an average of 1.5% over the quarter and 14.3% over the year to Q3 of 2022 (ABS, *Producer Price Index*).
- The **Australian PMI®** input price index fell by 6.8 points to 78.0 points in October (seasonally adjusted). 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 were very elevated across all sectors particularly in chemicals and TCF, paper and printing products.



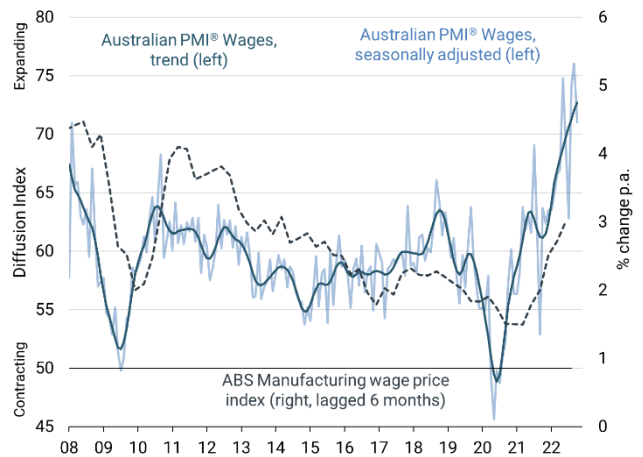
Selling prices

- 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 fell by 2.7 points to 67.5 points in October (seasonally adjusted). The easing in the index indicates fewer manufacturers are able to pass on some of their increased costs to their customers than last month.
- Respondents reported higher selling prices across all manufacturing sectors in September, they were particularly elevated in the building materials, TCF, paper & printing products and food & beverage sectors.



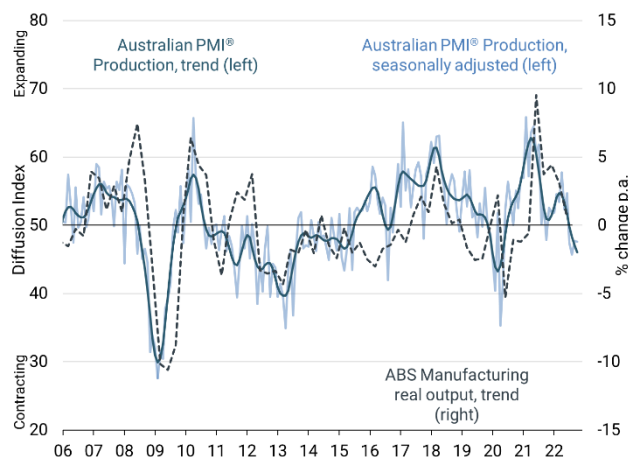
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.8% over the quarter and 3.0% over the year to Q2 of 2022 (ABS, *Wage Price Index*).
- The Australian PMI® average wages index fell by 5.1 points to 71.0 points (seas. adj.), indicating a slowing increase in wages across the manufacturing sector, on average, compared to September. The index has been particularly volatile since April 2022.
- The average wages index indicated expansion in all sectors in October but was below the series high in September 2022.



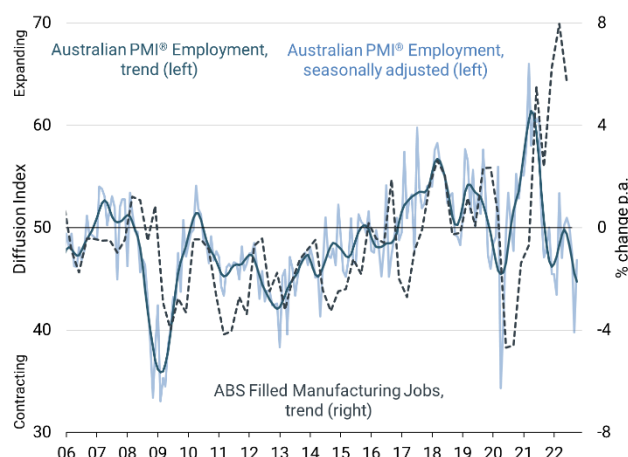
Production

- 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 rate of contraction in the Australian PMI® production index eased slightly by 0.1 points to 47.6 points in October, indicating a decline on average in production levels (seasonally adjusted).
- Results were mixed across the sub-sectors; production increased in the very large food & beverage sector as well as machinery & equipment and 'TCF, paper and printing. It contracted in metal products and chemicals.



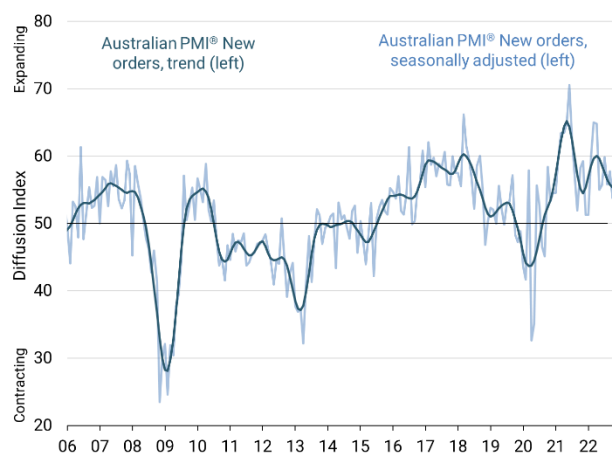
Employment

- There were 923,300 filled jobs in manufacturing in Q2 2022, accounting for 5.7% of all filled jobs in Australia (ABS Labour Account).
- The ABS Labour Force Survey identified 831,100 people working in manufacturing in August 2022, down 2.2% from February 2022 and 8.7% year on year respectively.
- The Australian PMI® employment index rose 7.1 points to 46.9 points in October, indicating contracting conditions in manufacturing employment.
- Employment declined significantly in the TCF, paper and printing sector. Chemicals and building products were the only sectors to report growth in employment. There was a significant reduction in absenteeism in October as manufacturers reported fewer employees away due to illness.



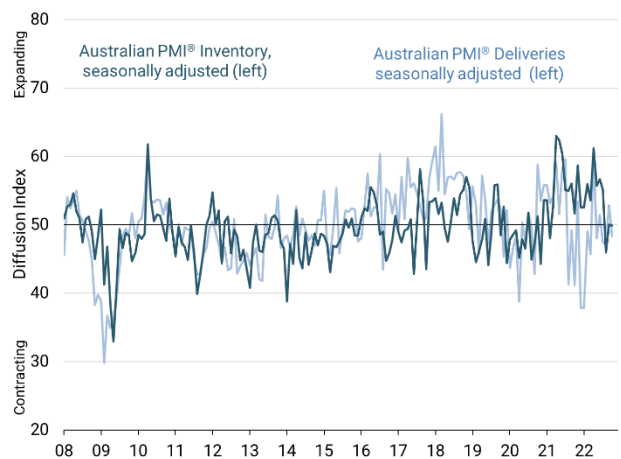
New orders

- The new orders index fell by 4.0 points to 53.8 points, indicating decelerating expansion in October (seasonally adjusted).
- The easing in growth in new orders for Australian manufacturers suggests softer activity in production and sales in the last quarter of 2022.
- New orders showed the greatest lift in food & beverage and 'TCF, paper & printing' from customers building festive season inventory earlier than usual. Orders were much weaker across chemicals, machinery equipment and metal products.



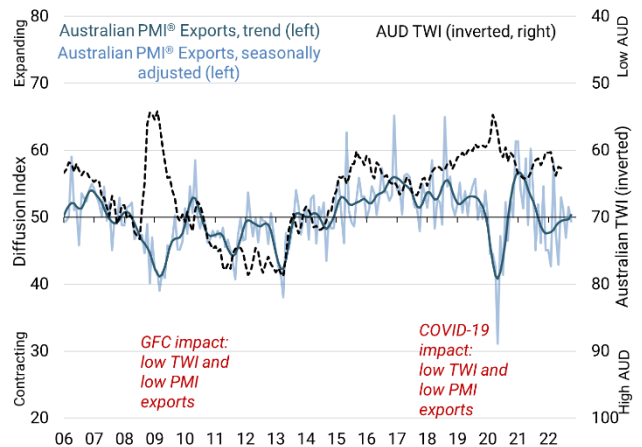
Supplier deliveries & finished stocks

- The supplier deliveries index decreased by 4.5 points to 48.3 points in October, indicating a fall in the supply of raw materials ordered by manufacturers (seasonally adjusted).
- The stocks (inventories) index fell slightly by 0.1 points to 49.9 points in October, indicating stability in inventories. Some respondents reported customers building festive season inventories earlier than usual.



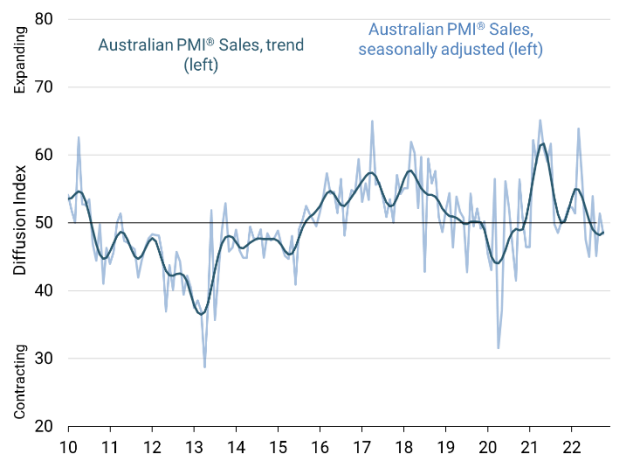
Exports

- 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 2.1 points to 49.4 points (seasonally adjusted). Manufacturing exports have been volatile across 2022.
- Export results were mixed across the sectors. There was strong improvement in food & beverages, while building materials indicated a solid drop.
- Manufacturers reported the change in the AUD/USD exchange rate, higher freight costs and availability as well as uncertainty about the global economic outlook softened demand.



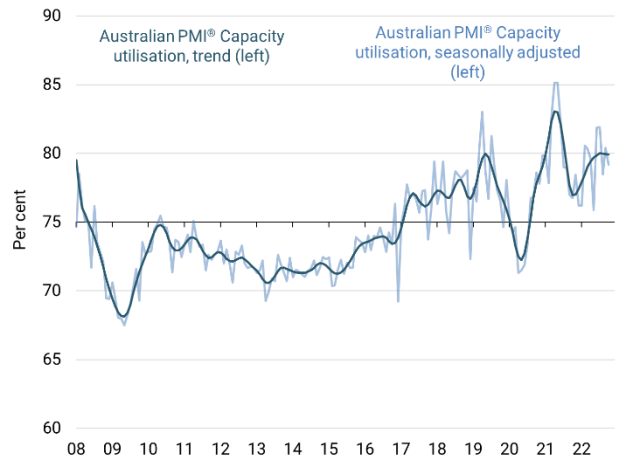
Sales

- The sales index fell by 3.0 points to 48.4 points in October (seasonally adjusted). This indicator has been volatile in recent months and has contracted in four of the past six months.
- This result is below the long-term average of 49.7 points for this index (since 2009).
- Sales improved in food & beverage, machinery & equipment, and TCF, paper & printing they were flat or contracted in other sectors.
- Some manufacturers reported that several of their major customers were increasing inventory for the festive season earlier than usual.



Capacity utilisation

- Australia's manufacturers invested \$10.6bn in capital expenditure (CAPEX) over the year to Q2 2022 (real dollars).
- The **Australian PMI®** capacity utilisation index fell by 1.2 percentage points to 79.2% of available capacity in October (seasonally adjusted). It remains 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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