

Manufacturing recovery strengthens in February 2021

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI[®]**) increased by 3.5 points to 58.8 points (seasonally adjusted), indicating a stronger pace of recovery in February 2021. This was the highest monthly result for the **Australian PMI[®]** since March 2018. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

Five of the six manufacturing sectors included in the **Australian PMI[®]** reported positive trading conditions (results over 50 points, trend) during February, with buoyant conditions reported by manufacturers in food & beverages, machinery & equipment, chemicals, pharmaceuticals, cleaning, rubber, petroleum & related products and TCF, paper & printing products. The building materials sector recorded its first month of expansion since August 2019, with respondents from that sector noting strong demand due to government stimulus. Some respondents reported that the ‘instant asset write off’ tax deduction for businesses (up to \$150k) is helping to increase orders, particularly for Australian-made machinery & equipment. Only the metal products sector continued to report mildly negative conditions in February.

COVID-19 remains the top concern for manufacturers in February. Many report fluctuating (and unpredictable) demand and heightened uncertainty, with customers taking a ‘wait and see’ approach to large new orders in 2021.

February 2021

MEDIA CONTACT

Tony Melville
Australian Industry Group
Tel: 0419 190 347

Australian PMI[®] ▲ 3.5 points (seasonally adjusted)	58.8
--	-------------

Australian PMI[®] ▲ 1.4 points (trend)	57.5
---	-------------

Food & beverages ▲ 0.9 points (trend)	57.3
---	-------------

Machinery & equipment ▲ 1.5 points (trend)	64.1
--	-------------

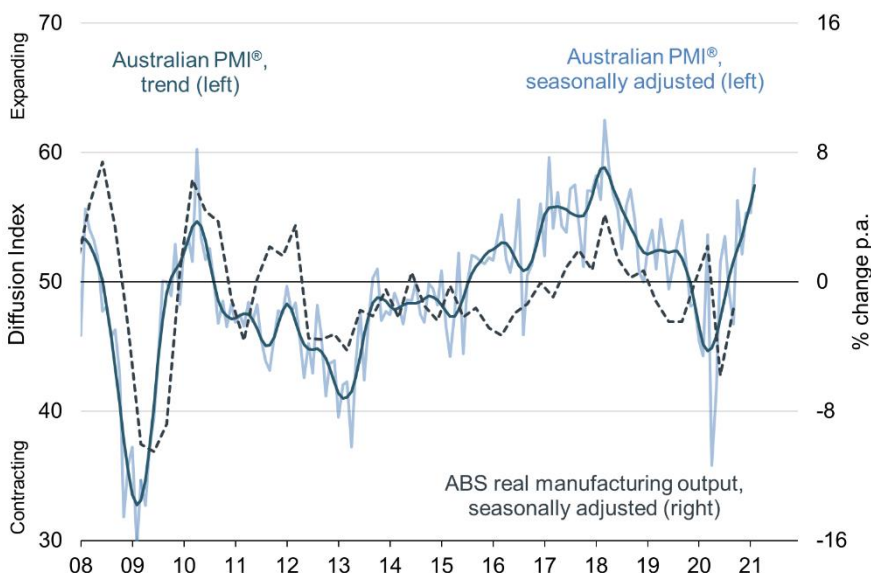
Metal products ▼ 0.8 points (trend)	48.7
---	-------------

Chemicals ▲ 1.1 points (trend)	63.8
--	-------------

Building materials, wood & other ▲ 3.9 points (trend)	53.4
---	-------------

TCF, paper & printing ▲ 2.8 points (trend)	62.1
--	-------------

Australian PMI[®] and ABS real manufacturing output



Manufacturing sectors: Five of the six manufacturing sectors in the **Australian PMI®** expanded in February 2021. Only the metal products sector reported (mildly) negative conditions in the month (trend).

Manufacturing wages and prices: The input price index jumped above its long-run average in February 2021 to its highest result since October 2019, indicating faster input price increases, on average, for manufacturers (seasonally adjusted). Manufacturers' selling prices, on average, increased slightly. The **Australian PMI®** average wages index increased in February, taking it back to more normal levels after dropping sharply due to COVID-19 in 2020.

Manufacturing activity: Six of the seven activity indices expanded, with only the stocks (inventories) index contracting, possibly because of buoyant sales in February. Production, sales, employment and new orders all improved from the December and January period, with the new orders index indicating further strong production in the coming months.

Manufacturing highlights: Australian manufacturing continues to recover from the lows of Q2 and Q3 in 2020, with the sector now recording its strongest pace of expansion since March 2018. Manufacturers noted especially strong demand from customers in the agriculture and home building sectors. The building materials sector recorded its first expansion since August 2019, with respondents noting strong customer demand due to state and federal government government stimulus programs. Some respondents reported that the instant tax write-off for business assets helped to increase their orders, particularly for Australian-made machinery & equipment.

Manufacturing concerns: The number one concern for Australian manufacturers remains COVID-19, which is still causing irregular and "unplannable" demand fluctuations. This is particularly evident in the metal products sector. Some respondents in this sector noted slower orders from their mining industry customers in February. Supply chain difficulties including delivery delays, freight pricing and the price of various raw materials continue to impact many Australian manufacturers.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average	AUSTRALIAN PMI® SECTORS (TREND)	Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PMI®	58.8	3.5	50.6	Australian PMI®	57.5	1.4	50.5
Production	65.8	8.9	51.3	Food & beverages	57.3	0.9	53.7
Employment	57.8	2.7	48.9	Machinery & equipment	64.1	1.5	49.9
New Orders	59.9	5.3	51.2	Metals products	48.7	-0.8	47.2
Supplier Deliveries	53.2	-2.6	50.9	Petroleum, coal, chemicals & rubber products	63.8	1.1	51.4
Finished stocks	48.0	-5.6	49.6	Building, wood, furniture & other products	53.4	3.9	49.8
Exports	54.1	-7.3	50.0	Textiles, clothing, footwear, paper & printing	62.1	2.8	46.6
Sales	62.2	15.7	49.1				
Input Prices	74.1	9.7	67.4				
Selling Prices	51.2	0.4	48.2				
Average Wages	58.2	1.8	58.6				
Capacity Utilisation (%)	77.8	-2.1	73.9				

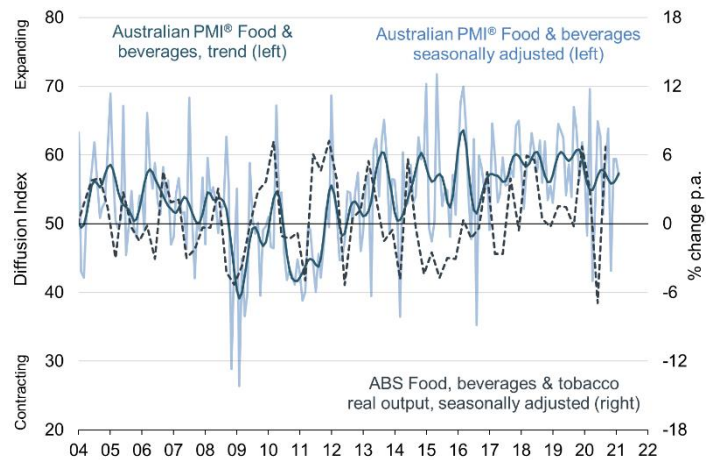
Results above 50 points indicate expansion. All indices for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 Sep 2020	108.1	-0.4	-1.3	5.6% of total GDP
Nominal sales, \$bn, year to Sep 2020	355.5	1.0	1.0	12.5% of non-farm business sales
Nominal export earnings, \$bn, year to Nov 2020	118.2	-2.9	-6.4	27.0% of total export earnings
Nominal company profits (GOP), \$bn, year to Sep 2020	35.8	8.1	15.2	8.4% of non-farm company profits
Real investment (CAPEX), \$bn, year to Dec 2020	9.2	0.6	-3.0	7.8% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Sep 2020	55.7	0.3	2.9	9.6% of non-farm business wages
People employed in manufacturing, Nov 2020	896.8	0.6	-1.0	6.5% of total employment
Employing manufacturing businesses, 2018-19	108.1	-0.4	-1.3	5.4% of employing businesses

ABS sources: *Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Force Survey, Business Counts.*

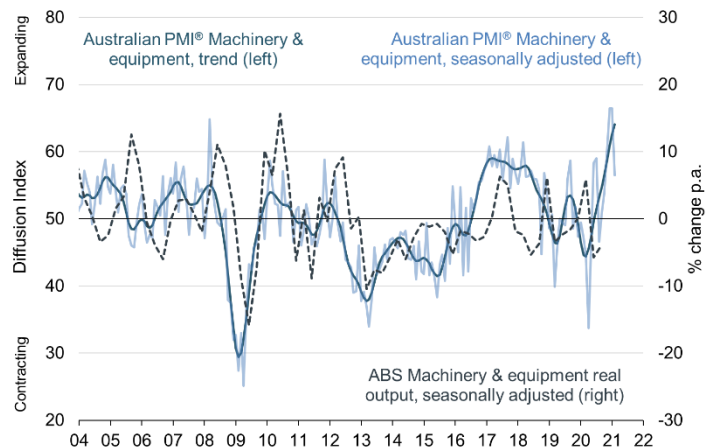
Food & beverages

- The food and beverages (& tobacco) sector produced \$27.4bn in real value-added output in the year to Q3 2020 (25% of manufacturing real value-added output). It employed 229,000 people in November 2020 (26% of manufacturing employment, ABS data).
- The index for food and beverages edged 0.9 points higher to 57.3 points in February, indicating another strong month of expansion (trend). Conditions fluctuated unpredictably through 2020, but the index for this sector did not turn negative in trend terms.
- Some respondents were re-stocking in February after a bumper Christmas, while others benefited from temporary surges in consumer demand in Victoria and Western Australia, ahead of lockdowns in those states. Some noted the high currency and high air freight rates are making it more difficult to export in 2021.



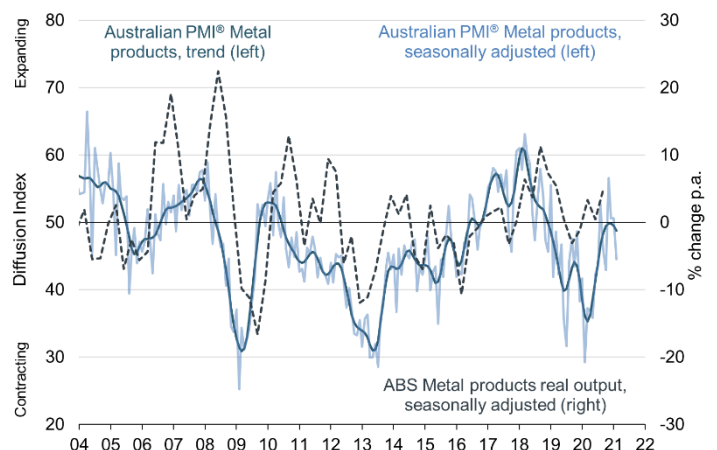
Machinery & Equipment

- The machinery & equipment sector produced \$22.3bn in real value-added output in the year to Q3 2020 (21% of manufacturing real value-added output). It employed 173,000 people in November 2020 (20% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector increased by 1.5 points to 64.1 points in February, indicating that conditions expanded at a faster pace than in December and January (trend).
- Machinery and equipment respondents noted buoyant demand, particularly from customers in agriculture, medicine and food manufacturing. Some respondents reported a boost from the instant tax write-off for assets.



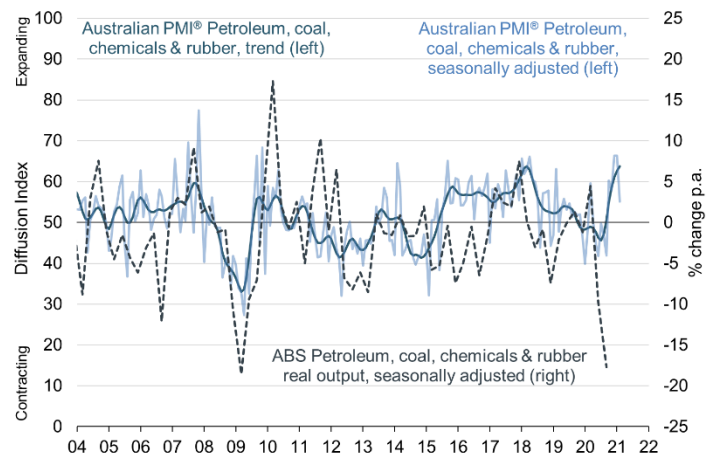
Metal Products

- The metal products sector produced \$17.8bn in real value-added output in the year to Q3 2020 (16% of manufacturing real value-added output). It employed 136,000 people in November 2020 (16% of manufacturing employment, ABS data).
- The metal products index edged 0.8 points lower to be very mildly negative at 48.7 points in February (trend).
- Some respondents reported a reduction in import competition because their competitors were having stock flow problems or difficulty importing suitable products. However, for others, this has resulted in raw material price increases. Some respondents also noted reduced orders from their customers in the mining sector in Feb.



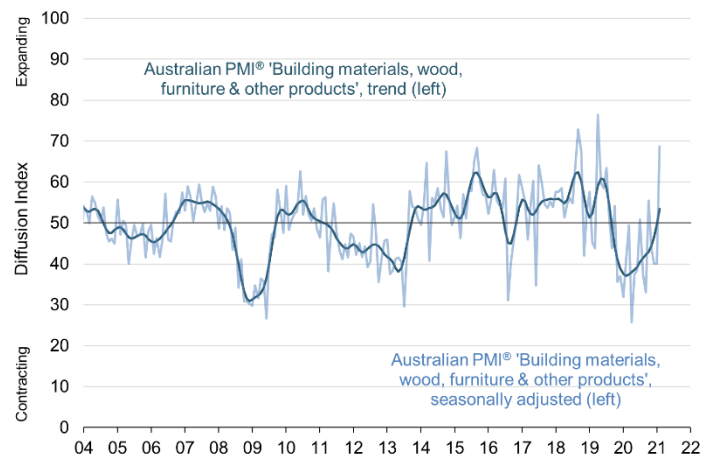
Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$18.7bn in real value-added output in the year to Q3 2020 (17% of manufacturing real value-added output). It employed 97,000 people in November 2020 (11% of manufacturing employment, ABS data).
- The chemicals sector’s index lifted a further 1.1 points to 63.8 points in February, indicated a faster pace of expansion in the month (trend).
- Production and capacity utilization were elevated in February, with respondents noting improving export orders plus strong local demand for various chemical products due to the recent housing renovation boom.



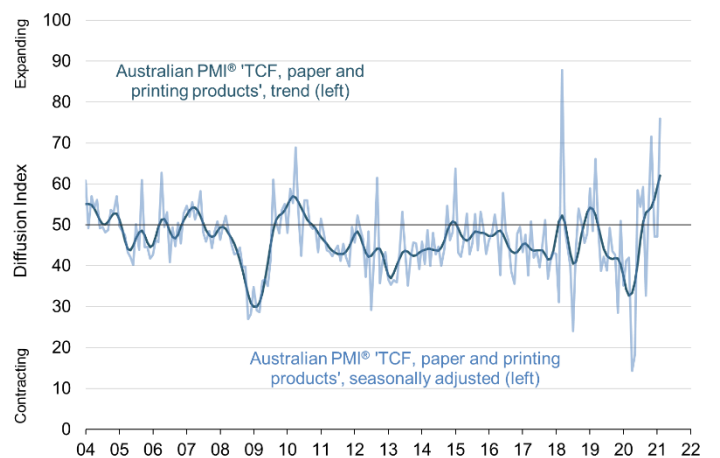
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 148,000 people in November 2020 (11% 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 manufacturing sector rose back into expansion for the first time since August 2019, at 53.4 points in February (trend).
- Respondents noted strong customer demand due to government infrastructure stimulus and the HomeBuilder subsidy program for renovations.



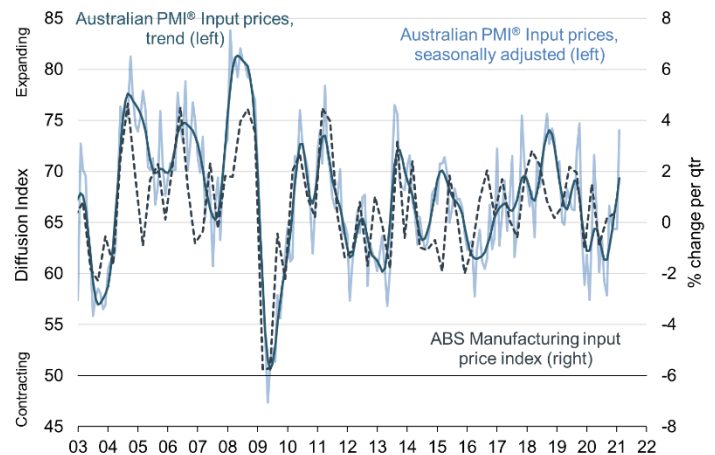
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 82,000 people in November 2020 (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 increased by 2.8 points to 62.1 points, indicating a faster expansion in February (trend).
- Respondents noted increased business confidence, strong demand for ‘recreational clothing’ and the arrival of previously delayed shipped inputs and goods.



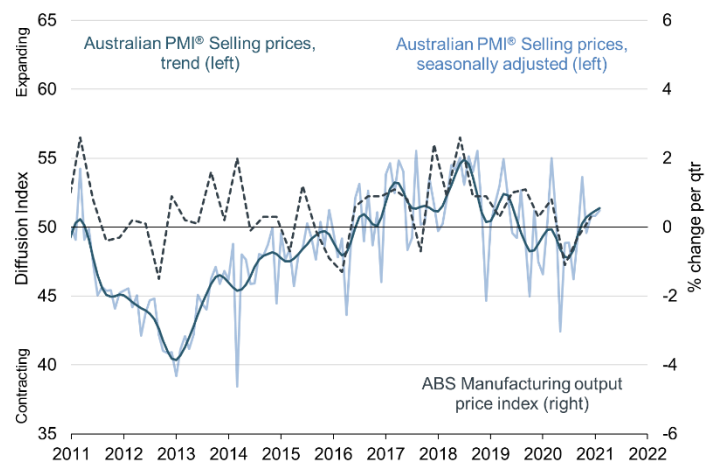
Input prices

- Manufacturers' input prices rose by an average of 0.3% over the quarter but decreased by 1.1% over the year in Q4 2020 (ABS *Producer Price Index*).
- The **Australian PMI®** input price index jumped 9.7 points to 74.1 points (seasonally adjusted), indicating faster increases, on average, for manufacturers in February.
- This result is above the long-run average of 67.4 points for this index and is the highest since October 2019. This index was extremely volatile through 2020.
- Input price increases were relatively large for chemicals and metal product manufacturers in February, with many respondents reporting higher prices for raw materials and for imported inputs due to supply chain disruptions.



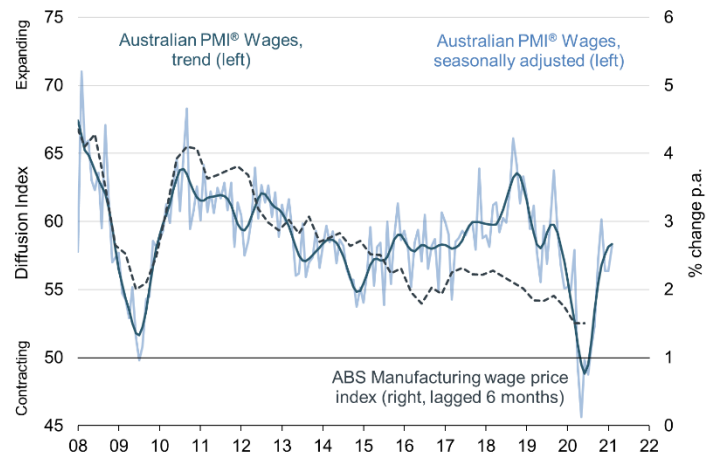
Selling prices

- Manufacturers' output (selling) prices rose by an average of 0.3% over the quarter but fell 0.3% over the year in Q4 2020 (ABS *Producer Price Index*).
- The selling price index rose 0.4 points to 51.2 points in February (seasonally adjusted). This indicates that manufacturers' selling prices, on average, increased in February.
- This index is above its own long-run average of 48.2 points (since 2003).
- Selling prices decreased for machinery & equipment and metal product manufacturers and were either stable or increased for the other sectors in February.



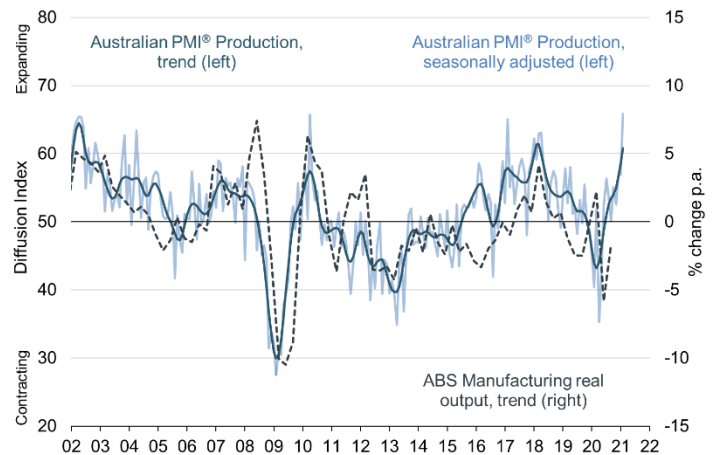
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.5% p.a. in Q4 2020 (ABS *Wage Price Index*).
- The Australian PMI® average wages index rose 1.8 points to 58.2 points in February (seasonally adjusted), indicating a faster increase in wages across the manufacturing sector, on average.
- This index is below its own long-run average of 58.6 points but has increased to more normal levels after dropping sharply due to COVID-19. The Australian PMI® average wages index was below 50 points from April to July. COVID-19 activity restrictions and recession constrained wage rises across all manufacturing sectors.



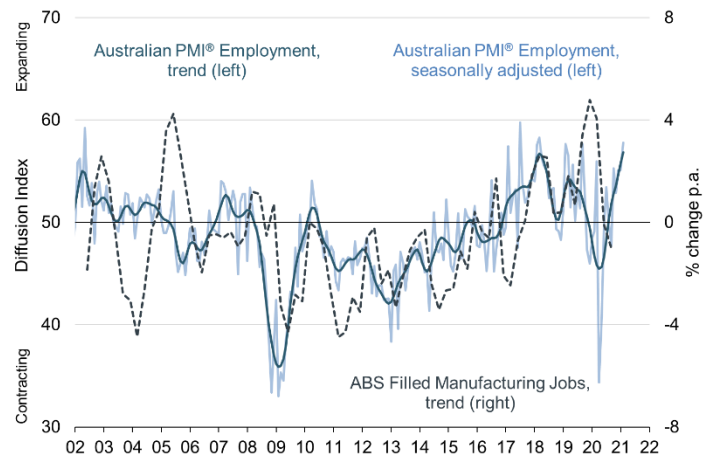
Production

- The manufacturing industry produced \$108.1bn in real value-added output in the year to Q3 2020 (5.6% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.4% q/q and 1.3% p.a. in Q3 of 2020 (ABS data).
- The Australian PMI® production index jumped 8.9 points to 65.8 points in February, indicating a strong bounce in production levels (seasonally adjusted).
- Production was elevated for building materials, furniture and other manufacturers who reported strong customer demand due to government infrastructure stimulus and the HomeBuilder subsidy program for home renovations.



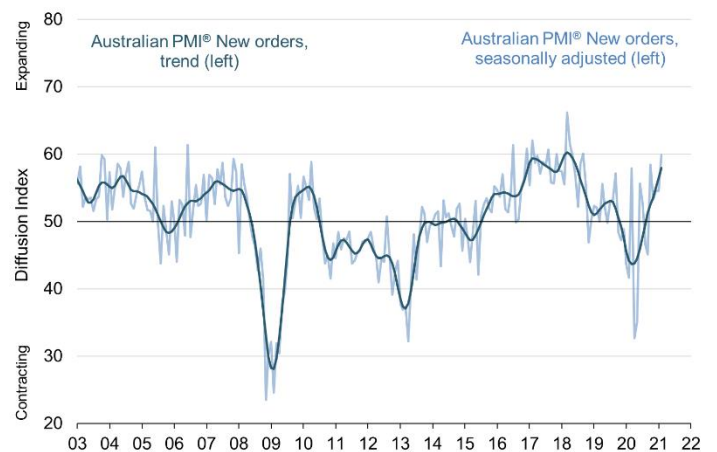
Employment

- There were 896,800 filled jobs in manufacturing in Q3 of 2020 (6.4% of all filled jobs in Australia). The number of filled jobs in manufacturing increased by 0.6% q/q but fell by 1.0% over the year to Q3 2020 (ABS Labour Account).
- The more volatile ABS Labour Force Survey identified 848,100 people working in manufacturing in November of 2020, down by 1.9% since August and 8.4% lower over the year to November (seasonally adjusted).
- The Australian PMI® employment index rose by 2.7 points to 57.8 points in February (seasonally adjusted), indicating a recovery in manufacturing employment after a period of job shedding during 2020.



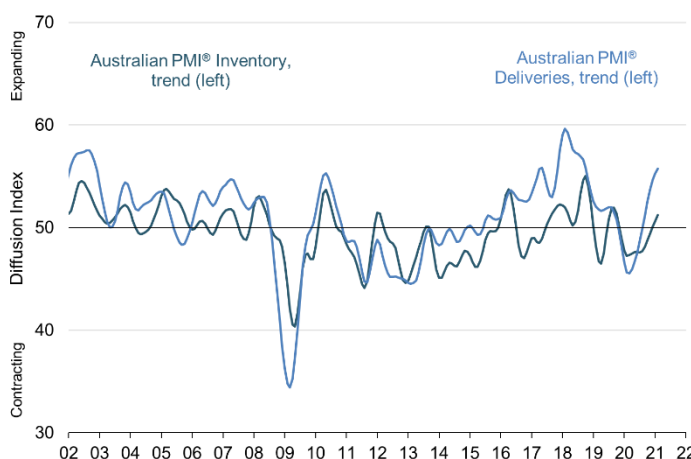
New orders

- The new orders index increased by 5.3 points to 59.9 points in February, indicating a faster pace of expansion in February, compared to the holiday period.
- This acceleration in new orders for Australian manufacturers suggests higher production and sales growth is likely through the next few months of 2021.
- New orders expanded strongly in the building material sector due to government stimulus, which was particularly evident in the increase in demand for renovation-related materials and products.
- Metal products manufacturing was the only sector to report falling new orders in February, with some respondents reporting that their clients are hesitant to place large orders due to COVID-19 uncertainty.



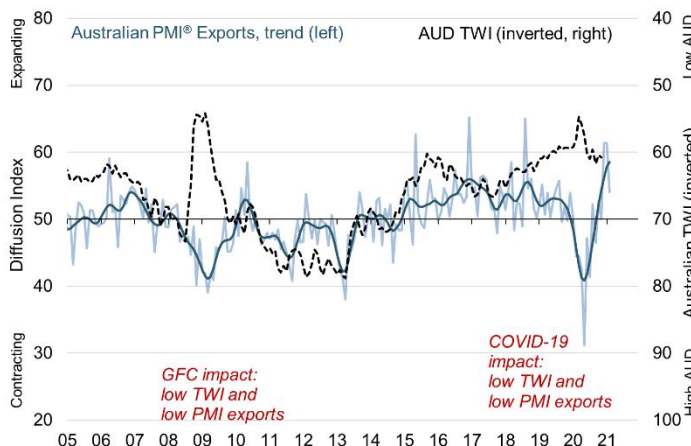
Supplier deliveries & finished stocks

- The supplier deliveries index fell by 2.6 points to 53.2 points in February, indicating an increase in the supply of raw materials ordered by manufacturers, but at a slower rate of growth than over the holiday period (seasonally adjusted).
- The stocks (inventories) index decreased by 5.6 points into contraction at 48.0 points in February. This indicates a decrease in stock levels held by businesses across the manufacturing sectors, possibly because of higher than usual sales in February (seasonally adjusted).



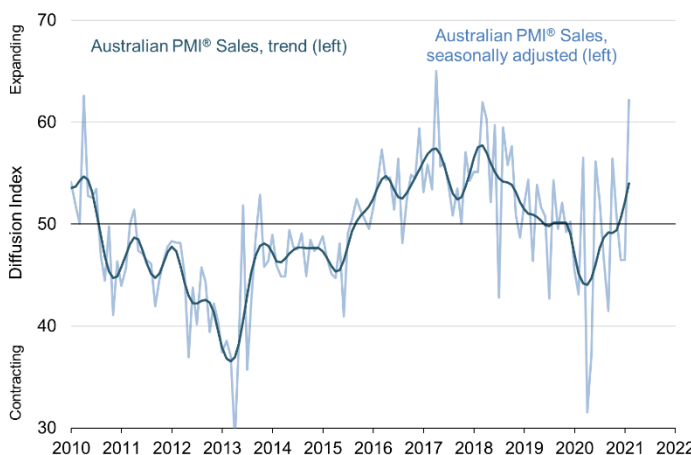
Exports

- Export earnings for Australian manufactured goods were worth \$118.2 bn in the year to November 2020 (27% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index fell by 7.3 points to 54.1 points, indicating expanding exports for Australian manufacturers in February, but at a slower pace than over the holiday period (seasonally adjusted).
- The trade-weighted index (TWI, weighted against trading partner currencies) was at relatively low levels in 2020. Manufacturing exports contracted in most months of 2020 due to the COVID-19 pandemic and related trade disruptions. In early 2021, the exports index is now moving closer to the historical relationship between manufacturing exports and the TWI, possibly suggesting that export disruptions are becoming less severe.



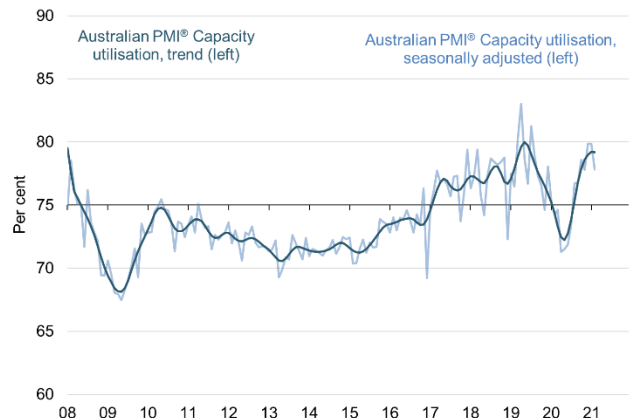
Sales

- The sales index jumped up 15.7 points into a strong expansion at 62.2 points (seasonally adjusted), indicating expanding manufacturing sales levels.
- This result is well above the long-term average of 49.1 points for this index (since 2009).
- Sales were buoyant for building, furniture & other materials and TCF, paper & printing manufacturing products. Sales fell for metal products.



Capacity utilisation

- Australia's manufacturers invested \$9.2bn in capital expenditure (CAPEX) in the year to Q4 2020 (real dollars).
- The Australian PMI® capacity utilisation index fell by 2.1 percentage points to 77.8% of available capacity being utilised in February (seasonally adjusted). This is above the long-run average for this index of 73.8% (since 2007). The current climate of heightened uncertainty and risk might mean that businesses want to run closer to their existing 'full capacity' before investing in new capacity (that is, new buildings, plant and equipment).



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.

© The Australian Industry Group, 2019. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to 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, including economic policy and information 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 any person relying in whole or in part upon the contents of this publication.