

Manufacturing goes from strength to strength in April 2021

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI**[®]) increased by a further 1.8 points to 61.7 points in April 2021 (seasonally adjusted), indicating a stronger pace of expansion. This was the highest monthly result for the **Australian PMI**[®] since March 2018 and a seventh consecutive month of recovery from the severe disruptions of COVID-19 in Q2 of 2020. This month's strong result was the third highest rate of growth since the **Australian PMI**[®] moved to a monthly format in May 2001 and the fifth highest since the **Australian PMI**[®] commenced (as a quarterly series) in 1992. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

All six manufacturing sectors in the **Australian PMI**[®] expanded in April 2021, as did all seven activity indicators. The **Australian PMI**[®] capacity utilisation index hit a record high for this series, which suggests employment and/or investment may need to step up in order to facilitate further growth from here. Indeed, many respondents said they plan to invest in facilities, equipment, staff and/or overall capacity over the next three to six months.

Australian manufacturers continue to report concerns about supply chain difficulties including delivery delays and freight pricing. High and/or rising prices for various raw materials is also of concern, due to high global commodity prices for metals, oil and other key inputs.

April 2021

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Australian PMI [®] ▲ 1.8 points (seasonally adjusted)	61.7
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Australian PMI [®] ▲ 0.9 points (trend)	60.6
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Food & beverages ▲ 1.7 points (trend)	61.9
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Machinery & equipment ▼ 0.1 points (trend)	63.7
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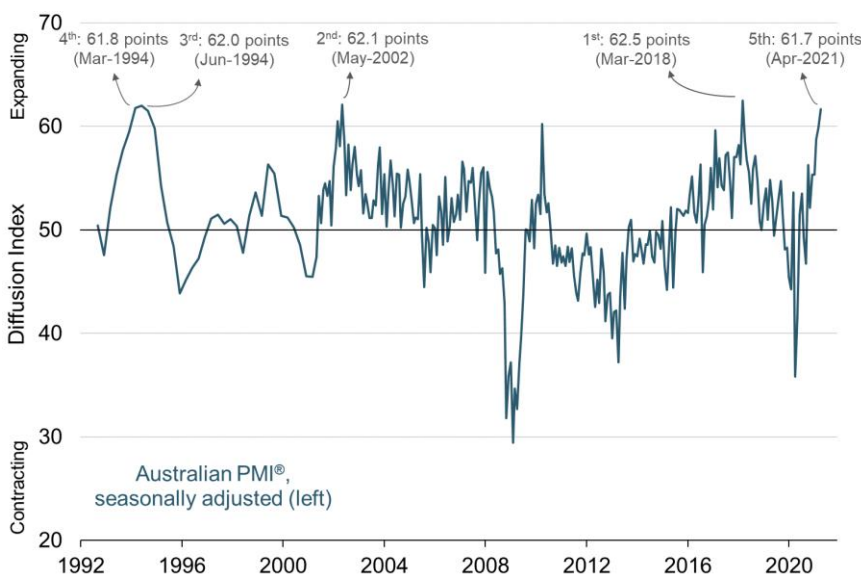
Metal products ▲ 0.6 points (trend)	52.5
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Chemicals ▼ 1.0 points (trend)	59.6
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Building materials, wood & other ▲ 3.3 points (trend)	62.6
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TCF, paper & printing ▲ 0.2 points (trend)	63.9
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Australian PMI[®] (seasonally adjusted)



Manufacturing sectors: All six manufacturing sectors in the **Australian PMI®** expanded in April 2021 (results above 50 points) and four of the six sectors expanded at a faster pace than in March (a higher index result in the month).

Manufacturing wages and prices: The **Australian PMI®** input price index rose further in April (seasonally adjusted), indicating that input price increases accelerated, on average, for manufacturers in April compared to March. Manufacturers' selling prices increased in April but at a slower pace than in March. The **Australian PMI®** average wages index dropped a touch but remained in expansion in April (seasonally adjusted) and above its own long-run average, indicating a slower pace of increase in wages across the manufacturing sector, on average, compared to March.

Manufacturing activity: All seven activity indexes expanded in April (results above 50 points), with five of the seven indexes expanding at an accelerating rate. Only the employment index fell in April but this was after a record high in March, with the index remaining in a strong expansion at 58.0 points. The new orders index eased slightly but remains in expansion and well above its own long-run average, suggesting further strong production in the coming months.

Manufacturing highlights: April was the highest monthly result for the **Australian PMI®** since March 2018 and the fifth highest result since the **Australian PMI®** began in 1992. The **Australian PMI®** capacity utilisation index moved to its highest level on record (since this series commenced in 2007), which suggests employment and/or investment may need to step up in order to facilitate further growth from here. Indeed, many respondents reported that they plan to invest in their facilities, equipment, staff and/or their overall capacity in the coming three to six months.

Manufacturing concerns: Manufacturers in most sectors (all except food & beverage manufacturing) reported supply chain difficulties including delivery delays and high freight pricing. High prices for various metals, raw materials and imported components continue to hamper many manufacturers. Some manufacturers reported they are increasing their inventory levels and placing larger orders for raw materials to meet future demand and to hedge against possible supply chain issues.

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®	61.7	1.8	50.7	Australian PMI®	60.6	0.9	50.6
Production	63.6	6.4	51.4	Food & beverages	61.9	1.7	53.8
Employment	58.0	-8.0	49.0	Machinery & equipment	63.7	-0.1	50.1
New Orders	63.4	-0.1	51.3	Metals products	52.5	0.6	47.3
Supplier Deliveries	59.1	5.0	51.0	Petroleum, coal, chemicals & rubber products	59.6	-1.0	51.5
Finished stocks	63.0	10.3	49.6	Building, wood, furniture & other products	62.6	3.3	49.9
Exports	58.8	7.5	50.1	Textiles, clothing, footwear, paper & printing	63.9	0.2	46.8
Sales	65.1	6.3	49.3				
Input Prices	74.1	2.8	67.5				
Selling Prices	52.9	-6.8	48.3				
Average Wages	61.8	-2.0	58.7				
Capacity Utilisation (%)	85.1	2.5	74.0				

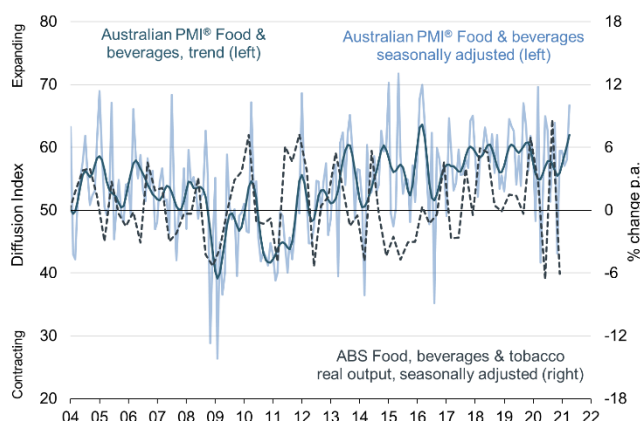
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 Dec 2020	107.5	-0.5	-1.8	5.6% of total GDP
Nominal sales, \$bn, year to Dec 2020	354.8	1.0	1.0	12.6% of non-farm business sales
Nominal export earnings, \$bn, year to Feb 2021	118.4	0.3	-6.1	27.1% of total export earnings
Nominal company profits (GOP), \$bn, year to Dec 2020	37.1	3.6	19.6	8.5% of non-farm company profits
Real investment (CAPEX), \$bn, year to Dec 2020	9.2	0.8	-2.6	7.8% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Dec 2020	55.6	-0.2	1.5	9.5% of non-farm business wages
Manufacturing filled jobs, Dec 2020	911.5	2.6	-1.1	6.4% of filled jobs
Employing manufacturing businesses, 2019-20	46,733	N/A	-0.5	5.3% of employing businesses

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

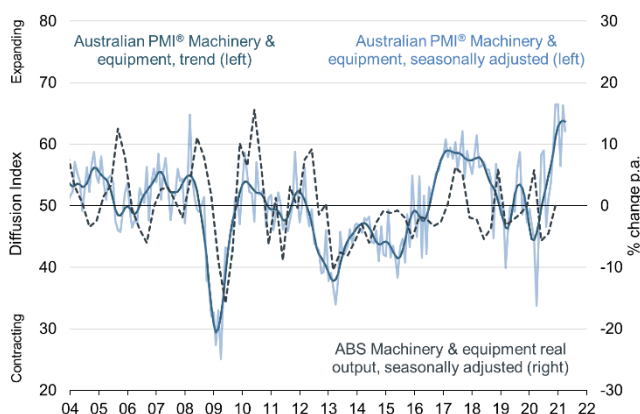
Food & beverages

- The food and beverages (& tobacco) sector produced \$27.2bn in real value-added output in the year to Q4 2020 (25% of manufacturing real value-added output). It employed 223,000 people in February 2021 (26% of manufacturing employment, ABS data). It is Australia's largest manufacturing sector.
- The index for food and beverages increased by 1.7 points to 61.9 points in April, indicating another strong month of expansion (trend).
- Some respondents noted a return to more 'normal' demand patterns from their customers in April. Others noted a boost from Easter sales.



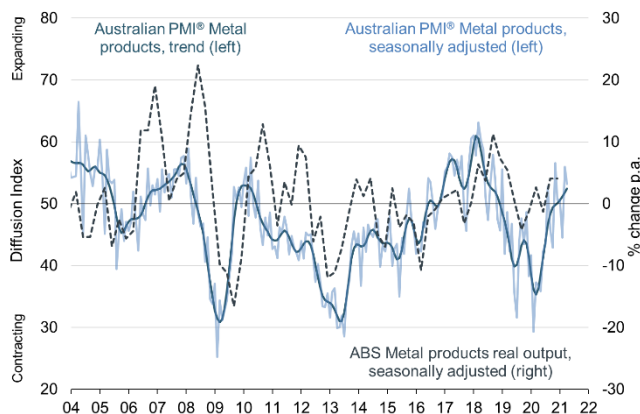
Machinery & Equipment

- The machinery & equipment sector produced \$22.2bn in real value-added output in the year to Q4 2020 (21% of manufacturing real value-added output). It employed 176,000 people in February 2021 (20% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector eased by 0.1 points to 63.7 points in April, indicating another strong month of expansion (trend).
- Machinery and equipment respondents noted improved demand from a variety of customers but particularly from those in construction and agriculture. Demand for equipment is also recovering for cafés & restaurants as they re-open. However, disrupted deliveries of metals, raw materials and imported components are still causing significant production delays for specialist equipment.



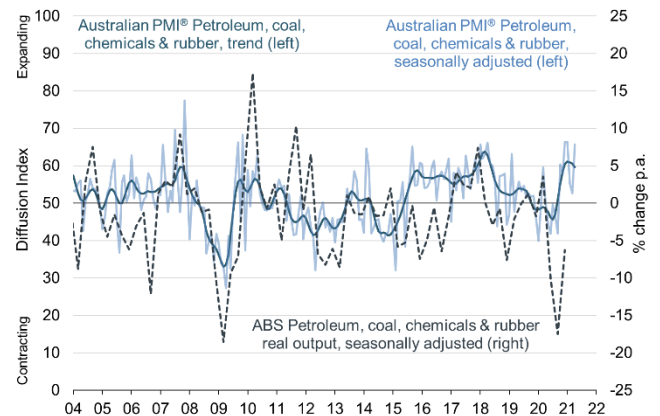
Metal Products

- The metal products sector produced \$17.7bn in real value-added output in the year to Q4 2020 (17% of manufacturing real value-added output). It employed 136,000 people in February 2021 (16% of manufacturing employment, ABS data).
- The metal products index rose by 0.6 points to 52.5 points, indicating a stronger expansion in April (trend).
- Respondents noted an increase in client demand from a broad range of sectors, with particularly strong demand for engineering-related metal products. Public holidays over the Easter period reduced the amount of available manufacturing hours for metal manufacturers.



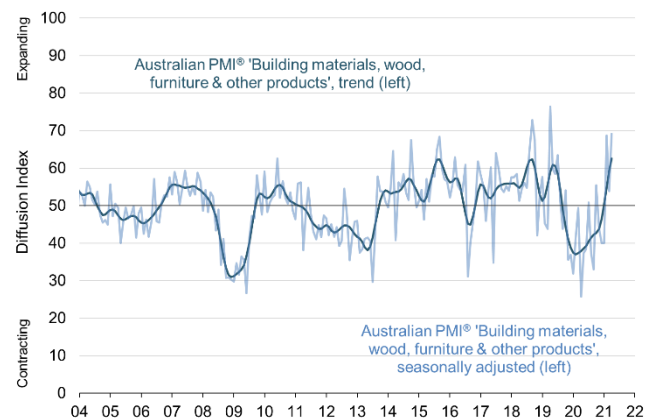
Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$18.3bn in real value-added output in the year to Q4 2020 (17% of manufacturing real value-added output). It employed 97,000 people in February 2021 (11% of manufacturing employment, ABS data).
- The chemicals sector's index declined by 1.0 point to 59.6 points in April, indicating a slower (but still relatively strong) pace of expansion in the month (trend).
- Respondents noted that supermarket demand is still elevated for personal care, cleaning and hygiene products. Those that sell to the construction sector reported robust production in response to recent orders.



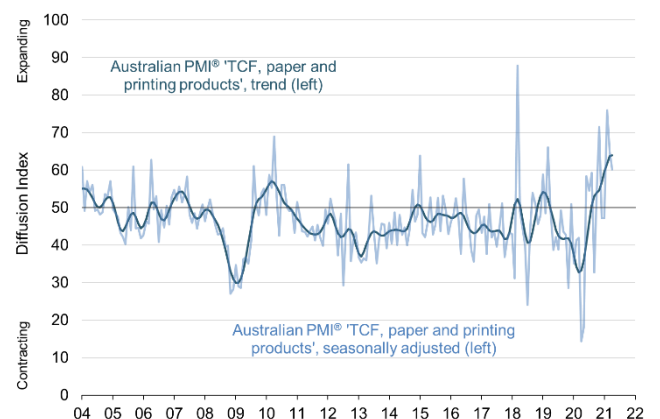
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 146,000 people in February 2021 (17% 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 increased by 3.3 points to 62.6 points in April (trend).
- Respondents noted strong sales to the residential construction sector which is flat out nation-wide, due to government infrastructure stimulus spending and the HomeBuilder subsidy program for renovations.



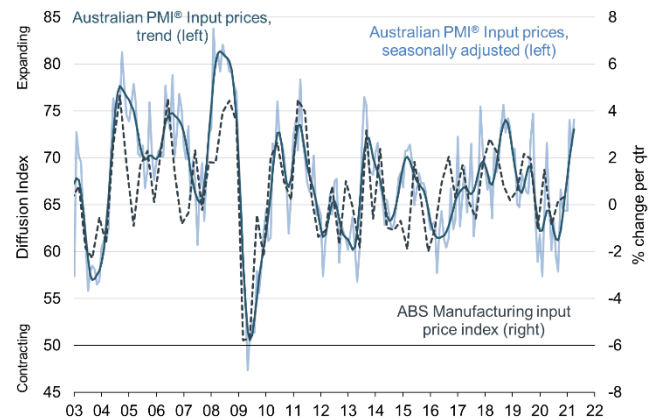
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 82,000 people in February 2021 (10% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for this sector edged 0.2 points higher to 63.9 points, indicating a faster expansion in April (trend).
- Respondents in this sector said they are benefiting from a recovery in the retail sector, with a good mix of new customers and higher orders from existing customers.



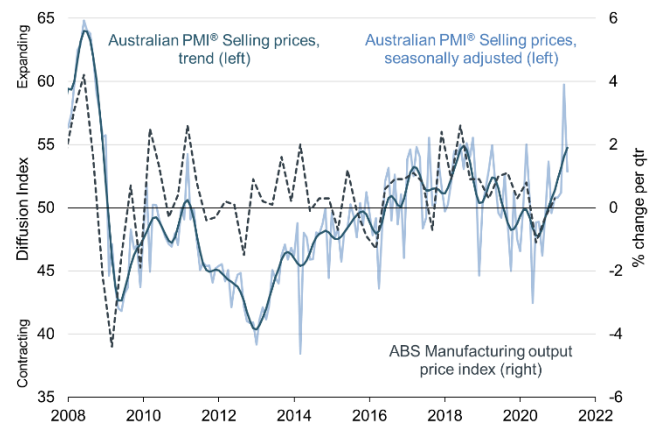
Input prices

- Manufacturers' input prices rose by an average of 0.3% over the quarter but decreased by 1.1% over the year to Q4 of 2020 (ABS *Producer Price Index*).
- The **Australian PMI®** input price index rose by a further 2.8 points to 74.1 points in April (seasonally adjusted), indicating that input price increases accelerated, on average, for manufacturers in April compared to March.
- This result remains above the long-run average of 67.5 points for this index (since 2003) and is the highest monthly result since October 2019.
- Many respondents said they are experiencing price increases for raw materials, imported inputs and components, due to delivery disruptions and high freight prices. Some respondents said they will review their supply arrangements for imported inputs due to ongoing delays in shipping times.



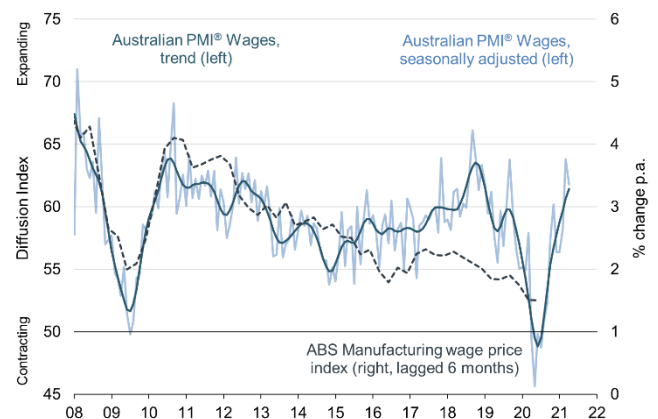
Selling prices

- Manufacturers' output (selling) prices rose by an average of 0.3% over the quarter but fell by 0.3% over the year to Q4 of 2020 (ABS *Producer Price Index*).
- The selling price index fell by 6.8 points in April after jumping up by 8.5 points in March (seasonally adjusted). The index is now at 52.9 points which is well above its own long-run average. This indicates further selling price increases in April, albeit at a slower pace than in March.
- Input prices have been elevated and volatile in recent months, so the higher selling price index suggests more manufacturers are now passing on these higher costs.
- Respondents reported higher selling prices in all sectors except food & beverages production, where selling prices were stable.



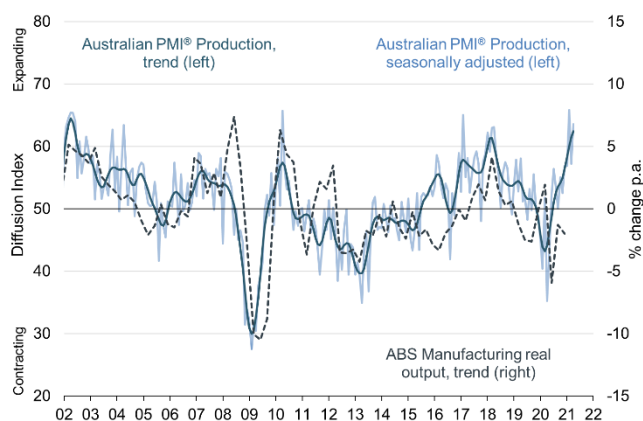
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.5% p.a. in Q4 of 2020 (ABS *Wage Price Index*).
- The Australian PMI® average wages index decreased by 2.0 points to 61.8 points in April (seasonally adjusted), indicating a slower increase in wages across the manufacturing sector, on average, compared to March.
- The average wages index indicated expansion in all sectors (above 50 points) but was more buoyant in the metals and building materials sectors.



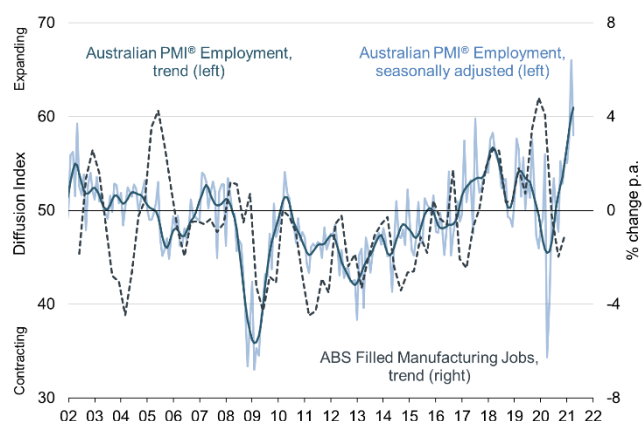
Production

- The manufacturing industry produced \$107.5bn in real value-added output in the year to Q4 2020 (5.6% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.5% through the quarter and was down by 1.8% through the year to Q4 2020 (ABS data).
- The Australian PMI® production index increased by 6.4 points to 63.6 points in April, indicating a strong bounce in production levels (seasonally adjusted).
- The production index has been well above its own long-run average of 51.4 points (since 2001) since October 2020. Manufacturers' reported buoyant production levels in late 2020 and early 2021 (seasonally adjusted).



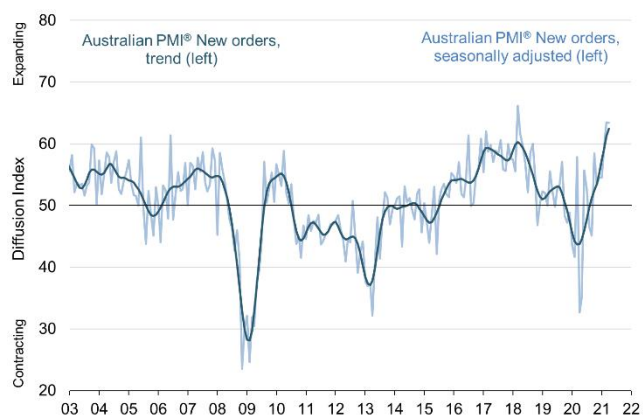
Employment

- There were 911,500 filled jobs in manufacturing in Q4 of 2020 (6.4% of all filled jobs in Australia). The number of filled jobs in manufacturing increased by 2.6% q/q but fell by 1.1% over the year to Q4 2020 (ABS *Labour Account*).
- The more volatile ABS *Labour Force Survey* identified 902,000 people working in manufacturing in February of 2021, up by 6.5% since November 2020 but 2.3% lower than in February 2020 (seasonally adjusted).
- The Australian PMI® employment index fell by 8.0 points to 58.0 points in April after hitting a record high in March (seasonally adjusted). This indicates another good month of recovery in manufacturing employment in April, but at a slower pace than in March.
- Respondents noted difficulty hiring skilled staff in particular regions and occupations, with some respondents reporting that they are losing key staff to the mining industry (which typically pays more).



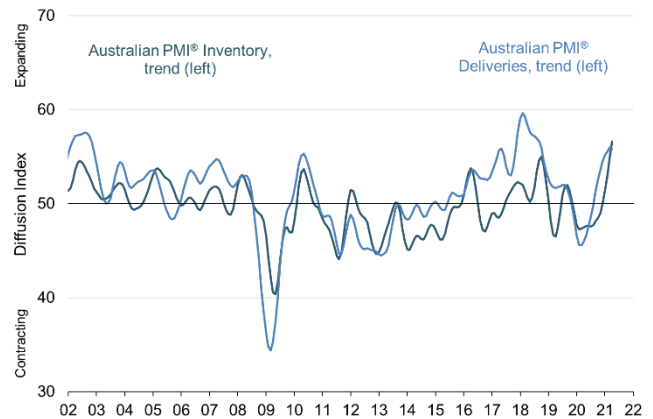
New orders

- The new orders index eased by 0.1 point to 63.4 points in April, indicating that new orders remained buoyant across the manufacturing sector (seasonally adjusted).
- This strength 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 all manufacturing sectors but they were particularly strong in the building materials, machinery & equipment and chemicals sectors.



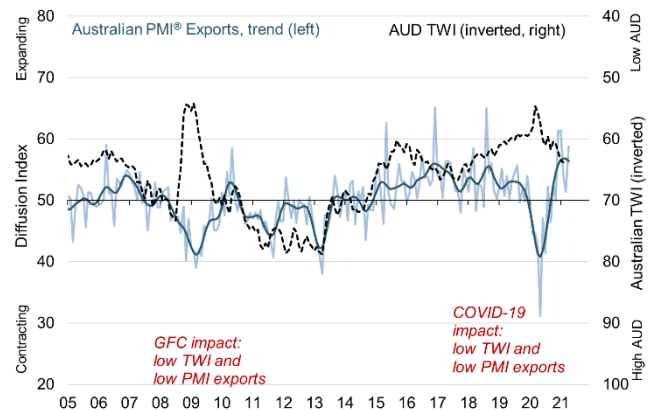
Supplier deliveries & finished stocks

- The supplier deliveries index increased by 5.0 points to 59.1 points in April, indicating an increase in the supply of raw materials ordered by manufacturers and at a faster pace than in March (seasonally adjusted).
- The stocks (inventories) index jumped by 10.3 points to 63.0 points in April. This indicates an increase in stock levels held by manufacturers (seasonally adjusted). Some manufacturers reported they are deliberately increasing their inventory levels to meet future demand and to hedge against late deliveries of raw materials.



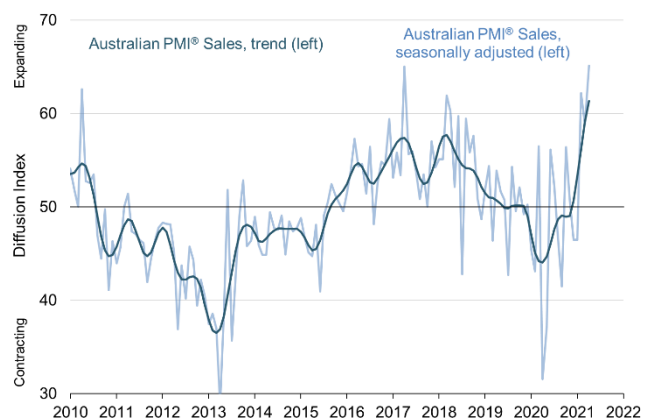
Exports

- Export earnings for Australian manufactured goods were worth \$118.4 bn in the year to February 2021 (27% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index rose by 7.5 points to 58.8 points in April, indicating expanding export sales for Australian manufacturers and at a faster pace than in March (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, despite the low TWI. In early 2021, the exports index is moving back towards its historical relationship with the TWI, possibly suggesting that export disruptions are becoming less severe.



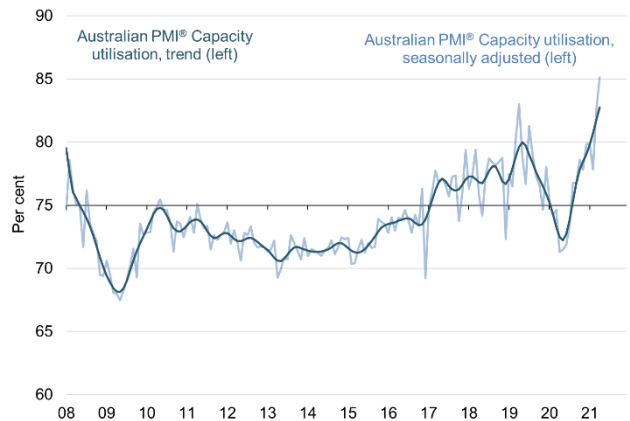
Sales

- The sales index increased by a further 6.3 points to 65.1 points in April (seasonally adjusted). This is a record high since this series began in 2009. This indicates a very strong expansion in local manufacturing sales in April.
- This result is well above the long-term average of 49.3 points for this index (since 2009).
- Sales have recovered across all manufacturing sectors in 2021 but are particularly strong in the chemicals and building materials sectors. Respondents in the machinery & equipment sector noted strong sales of specialist equipment to agricultural customers.



Capacity utilisation

- Australia's manufacturers invested \$9.2bn in capital expenditure (CAPEX) over the year to Q4 2020 (real dollars).
- The **Australian PMI®** capacity utilisation index increased by another 2.5 percentage points in April to hit a record high of 85.1% of available capacity being utilised (seasonally adjusted). This suggests that employment and/or investment may need to step up in order to facilitate further growth from here.
- The current climate of heightened uncertainty and risk aversion might mean that businesses want to run closer to their existing 'full capacity' before investing in new capacity (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.

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