

# Manufacturing recovers over holiday period

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 3.2 points to 55.3 points (seasonally adjusted), indicating a stronger improvement in conditions over the summer holiday period (December 2020 and January 2021\*) compared to November 2020. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

Australian manufacturing suffered severe disruptions in output, sales and activity during Q2 and Q3 of 2020 due to the COVID-19 pandemic but has been in recovery since September. Manufacturing businesses reported stronger and more broad-based recovery over the (normally quiet) summer holiday period. Five of the six manufacturing sectors included in the Australian **PMI®** reported positive trading conditions (results over 50 points, trend) during December 2020 and January 2021, with the strongest results reported from manufacturers in machinery & equipment and chemicals, pharmaceuticals, cleaning, rubber, petroleum & related products.

Some respondents noted pent-up demand built up during local lockdowns in 2020, which resulted in bumper sales and new orders during the holiday period. However, many manufacturers also reported fluctuating (and unpredictable) demand and elevated levels of uncertainty, as customers take a 'wait and see' approach to placing large new orders for 2021.

Dec 2020 and Jan 2021

## MEDIA CONTACT

Tony Melville  
Australian Industry Group  
Tel: 0419 190 347

<b>Australian PMI®</b> ▲ 3.2 points (seasonally adjusted)	<b>55.3</b>
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<b>Australian PMI®</b> ▲ 0.4 points (trend)	<b>53.8</b>
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<b>Food &amp; beverages</b> ▲ 16.4 points (s.a.)	<b>59.5</b>
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<b>Machinery &amp; equipment</b> ▲ 6.5 points (s.a.)	<b>60.2</b>
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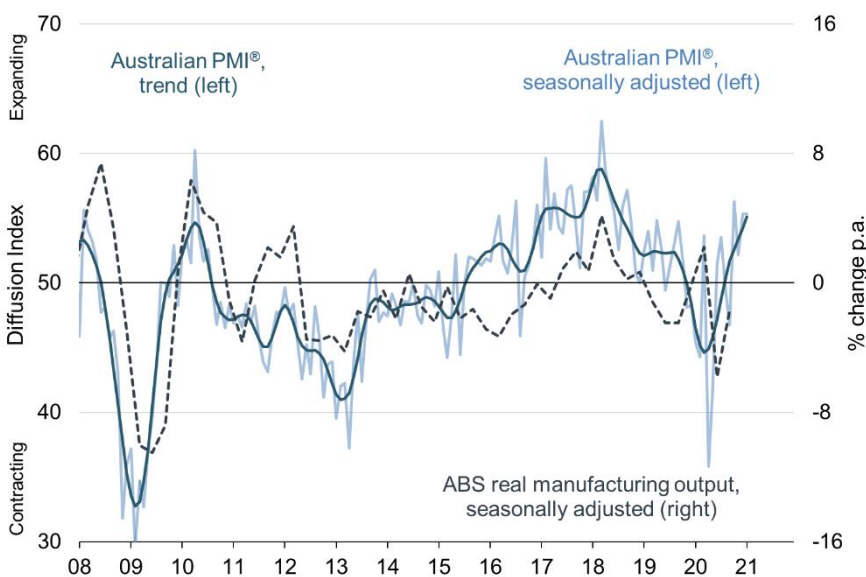
<b>Metal products</b> ▼ 6.0 points (s.a.)	<b>50.6</b>
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<b>Chemicals</b> ▲ 8.4 points (s.a.)	<b>66.3</b>
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<b>Building materials, wood &amp; other</b> ▼ 3.8 points (s.a.)	<b>40.0</b>
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<b>TCF, paper &amp; printing</b> ▼ 24.4 points (s.a.)	<b>47.2</b>
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## Australian PMI® and ABS real manufacturing output



\* the monthly data for the Australian PMI® in December 2020 and January 2021 are combined into one data release that describes two months of survey participation (released on 1 February 2021). This is due to ongoing business disruptions as a result of COVID-19 in Australia.

**Manufacturing sectors:** Three of the six manufacturing sectors in the **Australian PMI®** expanded in December 2020 and January 2021, one was stable and two contracted. The food & beverages, machinery & equipment and chemicals sector increased at an accelerating pace over these two months.

**Manufacturing wages and prices:** The input price index eased slightly over the holiday period, indicating slower price increases, on average, for manufacturers in December 2020 and January 2021 (seasonally adjusted). Manufacturers' selling prices, on average, remained stable. **Australian PMI®** average wages index eased below its long-run average after rising sharply in November in response to increases to manufacturing award pay rates that commenced from 1 November.

**Manufacturing activity:** Six of the seven activity indices expanded in December and January, with only the sales index contracting. The exports index jumped into strong expansion, driven by exports of food & beverages. The exports index is moving in line with the historical relationship between manufacturing exports and the trade-weighted index (TWI, which is weighted against trading partner currencies), possibly suggesting that export disruptions are becoming less severe.

**Manufacturing highlights:** Australian manufacturing has been recovering from the lows of Q2 and Q3 since September, with the sector recording a stronger pace of expansion over December and January. Manufacturers noted especially strong demand from customers in the agriculture, mining, medical and home building sectors. Anecdotally, manufacturers are reporting that disruptions to global supply chains have led more customers to purchase from Australian manufacturers. This growing preference for locally-made products is a positive trend for local manufacturers who are reporting less import competition, but for others it means higher input prices and delivery delays for essential imported inputs.

**Manufacturing concerns:** Manufacturers are reporting elevated levels of uncertainty and fluctuating demand. Customers are taking a 'wait and see' approach before placing any large orders for 2021 because of the pandemic. Some respondents report that operating during the pandemic remains difficult for their employees; for example, wearing masks inside factories during hot weather and concerns about reduced options for regular social interaction between team members.

AUSTRALIAN PMI® KEY NUMBERS	Index Dec 2020 / Jan 2021	Change from Nov 2020	Long-run average	AUSTRALIAN PMI® SECTORS (TREND)	Index Dec 2020 / Jan 2021	Change from Nov 2020	Long-run average
<i>seasonally adjusted</i>				<i>seasonally adjusted</i>			
Australian PMI®	55.3	3.2	50.5	Australian PMI® (trend)	53.8	0.4	50.5
Production	56.9	4.4	51.3	Food & beverages	59.5	16.4	53.7
Employment	55.1	2.3	48.9	Machinery & equipment	66.5	6.5	50.0
New Orders	54.6	1.3	51.1	Metals products	50.6	-6.0	47.3
Supplier Deliveries	55.8	2.3	50.9	Petroleum, coal, chemicals & rubber products	66.3	8.4	51.4
Finished stocks	53.6	9.3	49.6	Building, wood, furniture & other products	40.0	-3.8	49.8
Exports	61.4	11.4	49.9	Textiles, clothing, footwear, paper & printing	47.2	-24.4	46.6
Sales	46.5	-4.2	49.1				
Input Prices	64.4	-0.2	67.4				
Selling Prices	50.8	1.2	48.2				
Average Wages	56.4	-3.8	58.6				
Capacity Utilisation (%)	79.9	2.1	73.8				

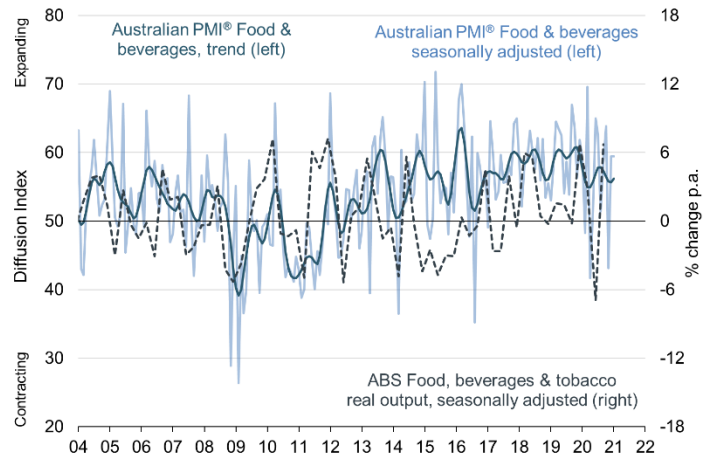
Results above 50 points indicate expansion. All indices for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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
Nominal investment (CAPEX), \$bn, year to Sep 2020	9.5	-2.9	-2.3	8.4% 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.

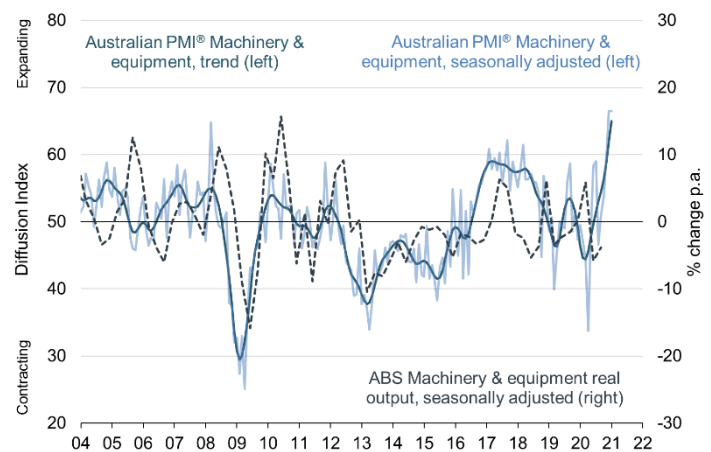
### Food & beverages

- The food, 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 - the largest manufacturing sector – jumped 16.4 points into expansion at 59.5 points in the January and December period (seasonally adjusted).
- Respondents reported strong orders and production volumes in the lead-up to Christmas. Export orders were also higher over this period.



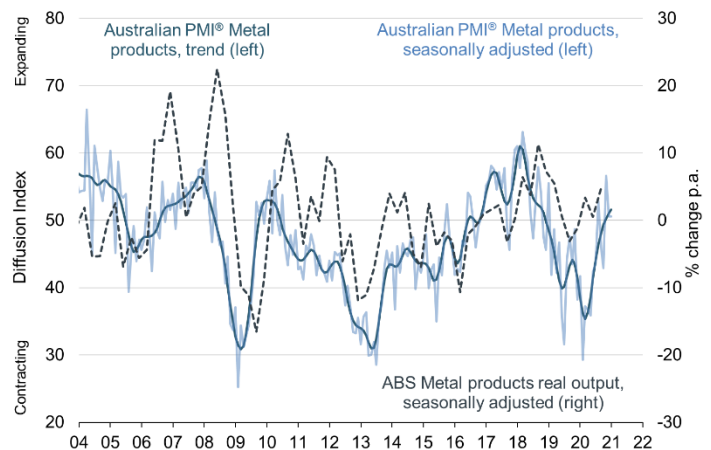
### Machinery & Equipment

- 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 large machinery & equipment sector lifted a further 6.5 points to 66.5 points over December and January, indicating that conditions expanded at a faster pace than in November (seasonally adjusted). This was a record high result for this sector since October 2003 (seasonally adjusted).
- Machinery and equipment respondents noted buoyant demand, particularly from customers in the agricultural, medical and food manufacturing sectors.



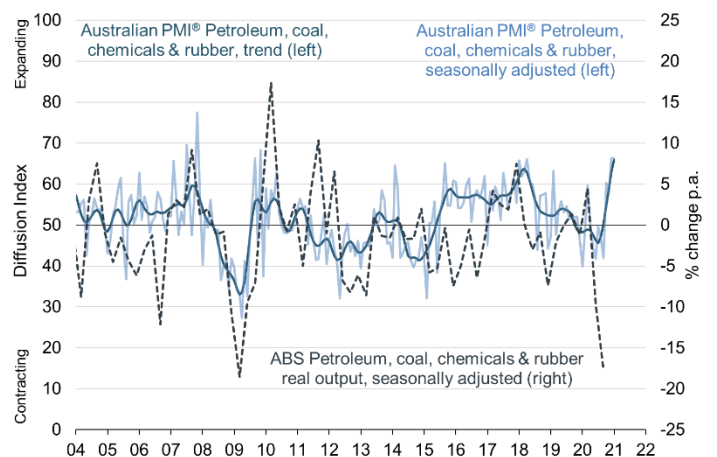
### Metal Products

- 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 declined 6.0 points to 50.6 points in December and January, indicating a broadly stable summer for 2020-21 (seasonally adjusted).
- Some respondents reported a reduction in import competition because their competitors were having stock flow issues or difficulty importing suitable products. Others reported that their regular customers are taking a 'wait and see' approach before placing any large orders for 2021 because of the pandemic.



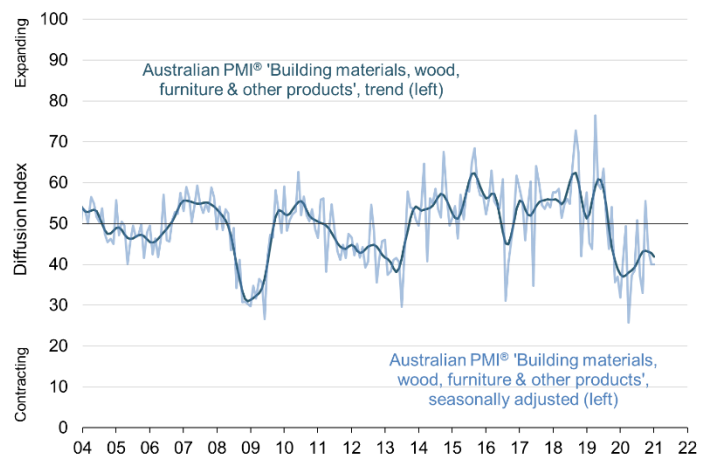
### Petroleum, coal, chemicals & rubber

- 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 index rose by 8.4 points to 66.3 points, indicating expanding conditions over the holiday period (seasonally adjusted) and at a faster pace than in November. This was the high result for this sector since November 2009 (seasonally adjusted).
- Production and new orders were elevated. Respondents said competitors are having difficulty importing supplies. Export demand declined for some respondents because of COVID-19 disruptions in specific export markets.



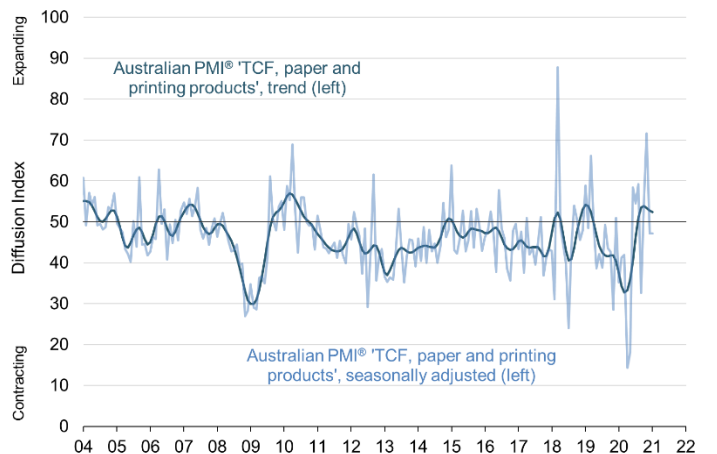
### Building materials, wood, furniture & other manufacturing products

- 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 this diverse (but mainly construction-related) sector remained in contraction at 40.0 points in December and January (seasonally adjusted).
- Most respondents reported delays in project commencements, but a few noted a surprising increase in sales, possibly related to the 'Home Builder Program'.



### TCF, paper and printing products

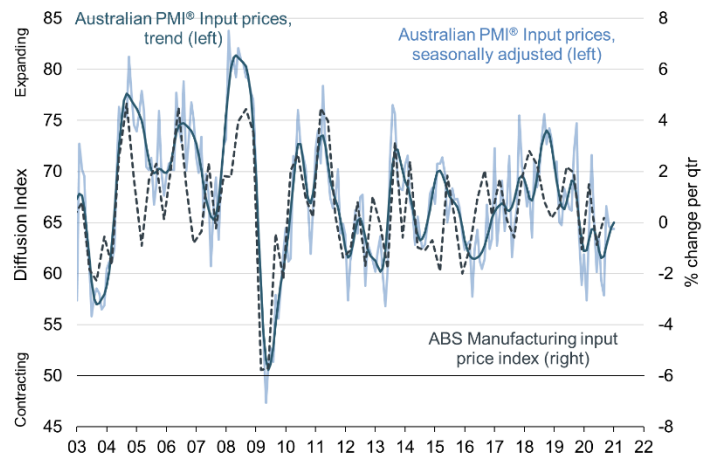
- The textiles, clothing, footwear (TCF), paper & printing products sector employed 82,000 people in November 2020 (9% of manufacturing employment, ABS data). This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for this sector dropped 24.4 points to 47.2 points over the December and January period (seasonally adjusted). This indicates a contraction over this period.
- Respondents noted more orders being confirmed, following on from quotes for customers earlier in the year that had been put on hold due to COVID-19 disruptions.





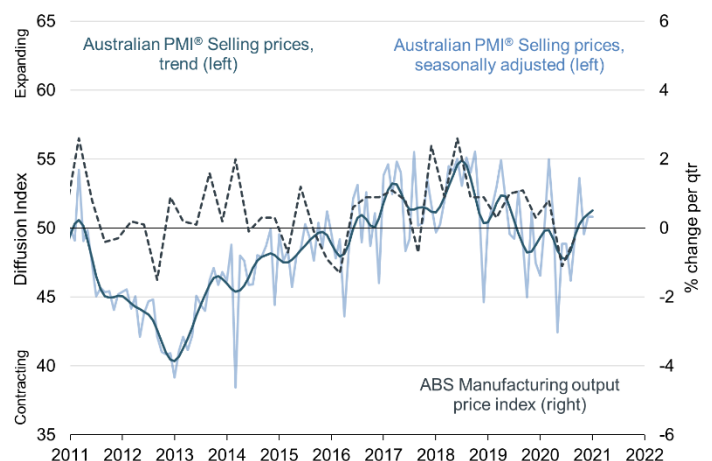
Input prices

- Manufacturers' input prices rose by an average of 0.2% over the quarter but decreased by 0.3% over the year in Q3 2020 (ABS *Producer Price Index*).
- The Australian PMI® input price index eased by 0.2 points to 64.4 points in December and January (seasonally adjusted), indicating slower price increases, on average, for manufacturers, than in Q3.
- This index was volatile through 2020 but has mostly remained well below the long-run average of 67.4 points for this index (since 2003).
- Input prices declined for the food & beverage sector but increased across the rest of the manufacturing industry, with higher prices reported for imported input products.



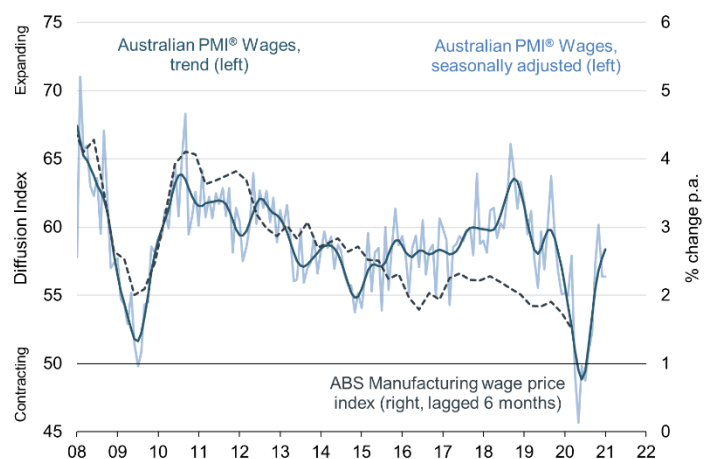
Selling prices

- Manufacturers' output (selling) prices fell by an average of 0.3% over the quarter and by 0.3% over the year in Q3 2020 (ABS *Producer Price Index*).
- The selling price index increased by 1.2 points to be broadly stable at 50.8 points in December and January, compared to November (seasonally adjusted). This indicates that manufacturers' selling prices, on average, stayed broadly the same as in November.
- This index is above its own long-run average of 48.2 points (since 2003).
- Selling prices decreased for machinery & equipment and TCF, paper & printing manufacturers, but rose for chemicals and metal product manufacturers.



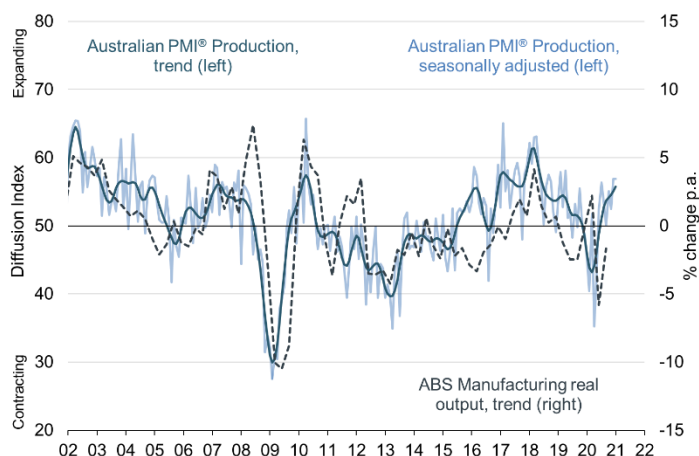
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.5% p.a. in Q3 2020 (ABS *Wage Price Index*).
- The Australian PMI® average wages index eased by 3.8 points to 56.4 points (seasonally adjusted) in December and January, indicating a slower increase in wages across the manufacturing sector, on average.
- The slower rise in manufacturing wages in December and January is probably because manufacturing award increases were implemented in November 2020 instead of the usual timing of July. The Australian PMI® average wages index was below 50 points from April to July. COVID-19 activity restrictions and recession have constrained wage rises across all manufacturing sectors.



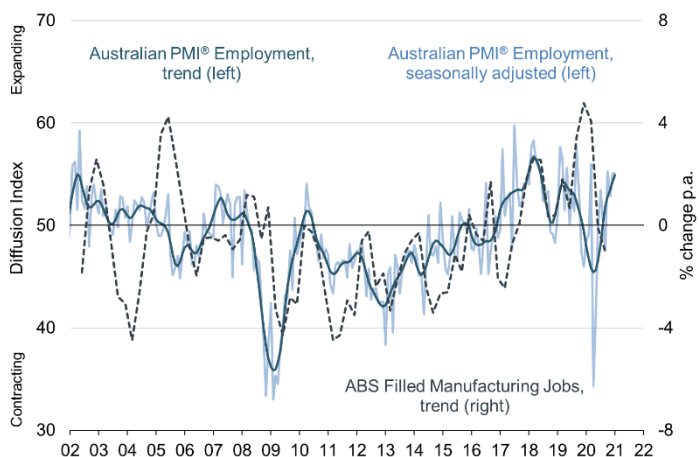
## Production

- 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 in Q3 of 2020 and was 1.3% lower over the year to Q3 2020 (ABS data).
- The Australian PMI® production index increased by 4.4 points to 56.9 points in December and January, indicating a strong recovery in production levels over the holiday period (seasonally adjusted).
- Production was elevated for machinery & equipment, chemicals and food & beverage sectors in the lead-up to Christmas.



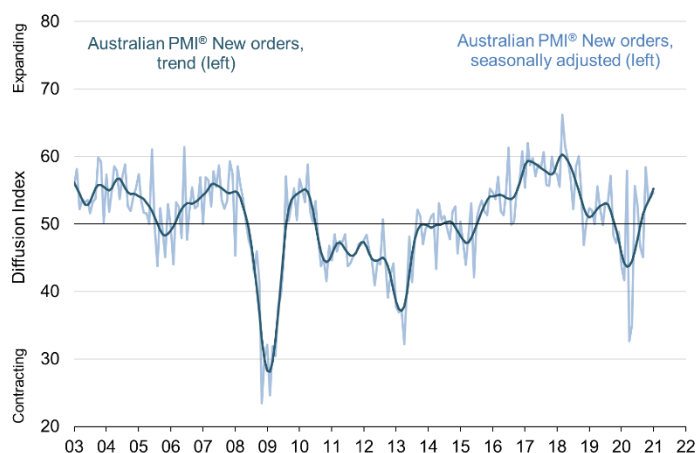
## Employment

- 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% p.a. to Q3 2020 (ABS Labour Account).
- The more volatile ABS Labour Force Survey identified 848,100 people working in manufacturing in November 2020, down by 1.9% since August and 8.4% lower over the year (seasonally adjusted).
- The Australian PMI® employment index recovered by 2.3 points to 55.1 points (seasonally adjusted), indicating rising manufacturing employment over the holiday period and at a faster pace than in November.



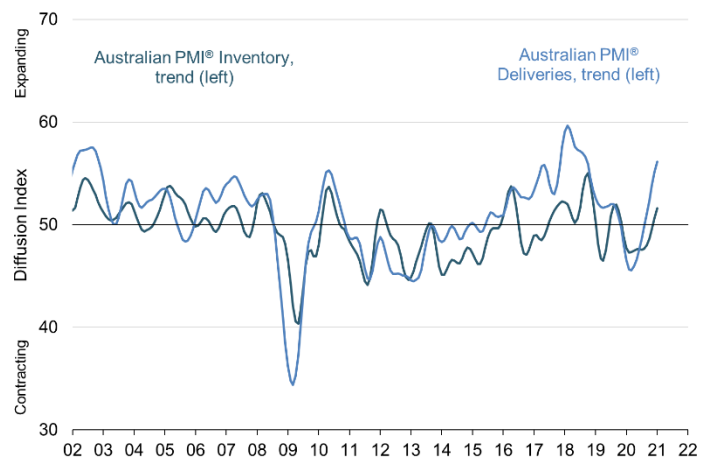
## New orders

- The new orders index edged 1.3 points higher to 54.6 points in December and January, indicating a slightly faster pace of expansion in these months compared to November.
- This acceleration in new orders for Australian manufacturers suggests higher production and sales growth is likely to emerge at the start of 2021.
- New orders expanded in December and January in all sectors except for the building material sectors.



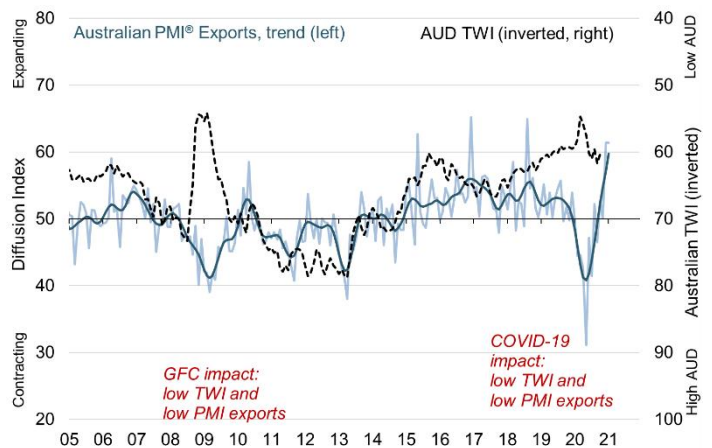
### Supplier deliveries & finished stocks

- The supplier deliveries index rose by 2.3 points to 55.8 points in December and January, indicating an increase in the supply of raw materials ordered by manufacturers, and at a faster rate than in November (seasonally adjusted).
- The finished stocks (inventories) index jumped by 9.3 points into expansion at 53.6 points. This indicates an increase in stock levels held by businesses across the manufacturing sectors over the holiday period (seasonally adjusted).



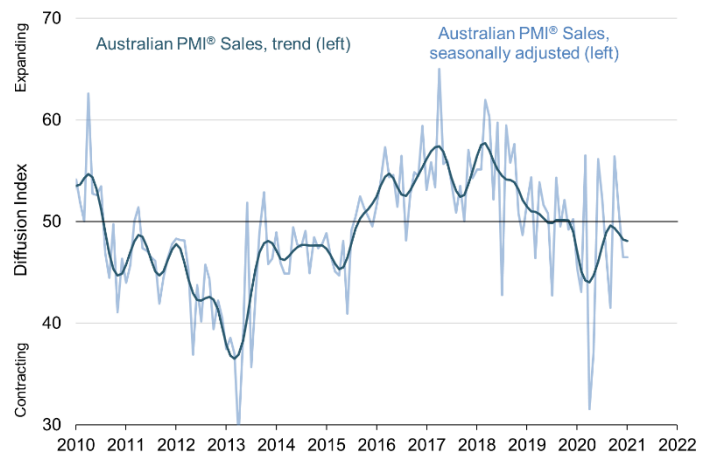
### Exports

- 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 jumped up by 11.4 points to 61.4 points, indicating expanding exports for Australian manufacturers over the holiday period (seasonally adjusted). This is the highest monthly result for this index since August 2018.
- 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 COVID-19 pandemic trade disruptions. However, 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.



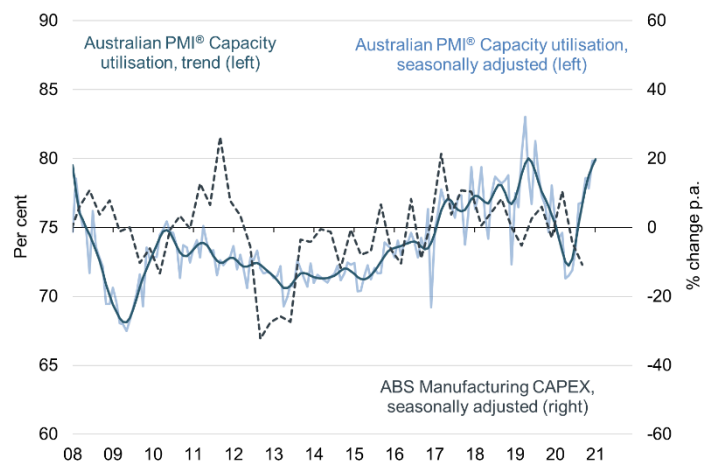
### Sales

- The sales index declined by 4.2 points into contraction at 46.5 points in December and January (seasonally adjusted), indicating a fall from November's sales levels.
- This result is below the long-term average of 49.1 points for this index (since 2009).
- There was significant divergence in sales between manufacturing sectors over the holiday period. Sales were buoyant for machinery & equipment and chemical manufacturers but fell for metal products, building materials and TCF, paper & printing manufacturing products.



## Capacity utilisation

- Australia's manufacturers invested \$9.5bn in capital expenditure (CAPEX) in the year to Q3 2020 (nominal dollars). Manufacturing CAPEX fell by 2.9% q/q in Q3 of 2020 and by 2.3% over the year to Q3 of 2020 (ABS estimates of CAPEX, Q3 2020).
- The Australian PMI® capacity utilisation index increased by 2.1 percentage points to 79.9% of available capacity being utilised in December and January (seasonally adjusted). This is above the long-run average for this index of 73.8% (since 2007). Capacity utilisation appears to be structurally higher than one decade ago, possibly indicating that businesses want to run closer to their existing 'full capacity' before investing in new capacity due to increased uncertainty about potential growth and likely returns on investment.



### 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](http://www.aigroup.com.au/resourcecentre/economics).

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