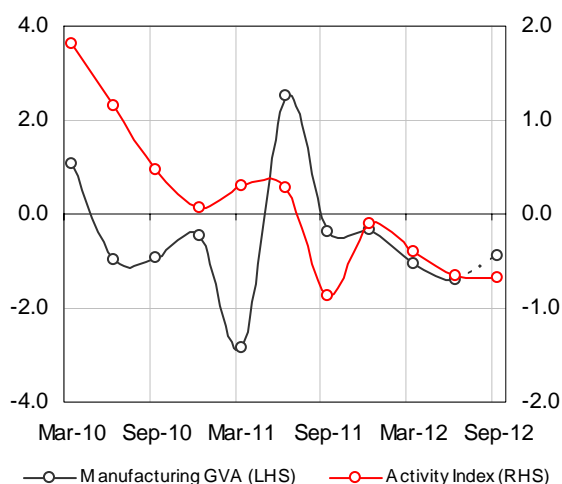


NAB Manufacturing Activity Index – Q3 2012

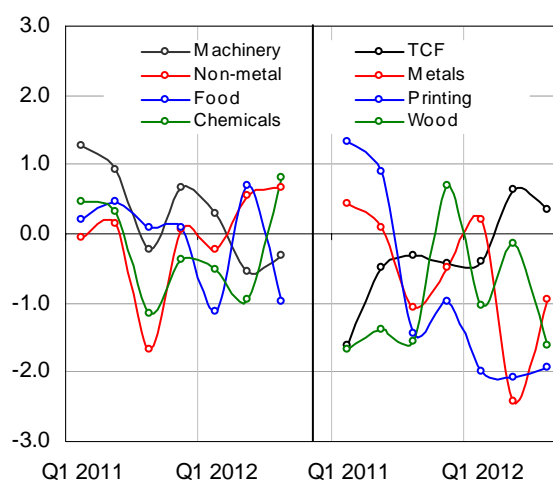
The Manufacturing Activity Index* was unchanged in Q3 – despite diverging trends in the index components – remaining at negative levels. The index indicates further falls in Manufacturing growth in the quarter, which remains burdened by global economic trends and the strength of the dollar

- NAB's Manufacturing Activity Index was stable in September quarter, at -0.7 points. This level implies further declines in manufacturing activity for the quarter – at around -0.9% qoq.
- The stable Activity Index masks the diverging trends in the index components in Q3. A steep decline in Business Confidence and weaker growth in product prices were offset by an easing in the growth rate for purchase costs.
- Business Confidence declined further in Q3 2012 – down to -12 points (from -5 points). This sharp decline was in contrast to a more stable trend in confidence for the broader economy. The largest falls in confidence were recorded in the Printing and Chemicals sectors, while there was a significant improvement in the Metals category.
- Product prices (a lagged measure in our index) declined slightly in Q1 2012, with growth of -0.2% quarter-on-quarter. The largest declines in the product price growth were recorded in the Food products and Wood products sectors, while Chemicals recorded an improvement.
- Purchase costs softened in the first quarter for the manufacturing sector, offsetting some of the negative trends from confidence and product prices. Growth in purchase costs eased from +0.5% to +0.2%. The largest falls in the growth rate were recorded in Chemicals, Machinery & Equipment, Printing and Metal products.
- Labour cost trends were marginally positive for the Index in the March quarter, with growth easing to +0.5% (from +0.6% previously). This component had minimal influence on the Activity Index in September.
- The minimal movement in the aggregate index masks some divergent trends by sub-sector. In the September quarter, there were improving trends for the Chemicals and Metal products sectors, while producers in the Food products and Wood products sector saw deterioration.

Stable Activity Index points to another decline in Manufacturing GVA



Chemicals & Metals improved in Q3; Food & Wood deteriorated



* NAB's Manufacturing Activity Index (MAI) has been constructed to replicate quarterly movements in activity in the manufacturing sector. It comprises weighted components of business confidence and profits (in turn based on weighted movements in output and input prices, which are lagged by two quarters). The MAI signals further decline in quarterly manufacturing activity in Q3 2012 – with the index equivalent to a decline of around -0.9%.

Activity Index	Q1 2012	Q2 2012	Q3 2012	Activity Index	Q1 2012	Q2 2012	Q3 2012
Manufacturing	-0.4	-0.7	-0.7	Chemicals	-0.5	-0.9	0.8
Food, Beverage, Tobacco	-1.1	0.7	-1.0	Printing and Publishing	-2.0	-2.1	-1.9
Machinery and Equipment	0.3	-0.5	-0.3	Textile, Clothing, Footwear	-0.4	0.6	0.4
Metal Products	0.2	-2.4	-1.0	Wood & Paper	-1.0	-0.1	-1.6
Non-metallic Minerals	-0.2	0.5	0.7				

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All data is seasonally adjusted. Gross value added (GVA), Purchase costs, Labour costs and Final prices data are percentage changes expressed at a quarterly rate. Business confidence is a net balance index.

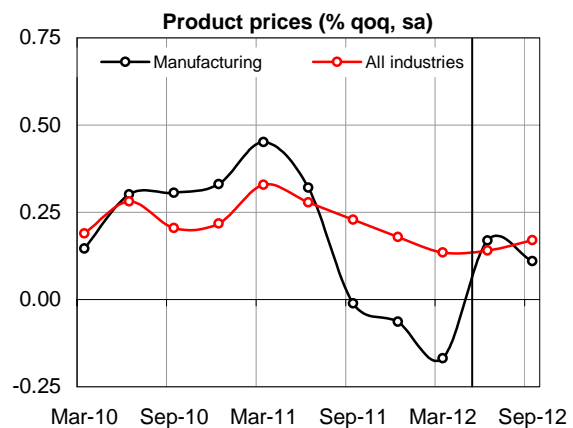
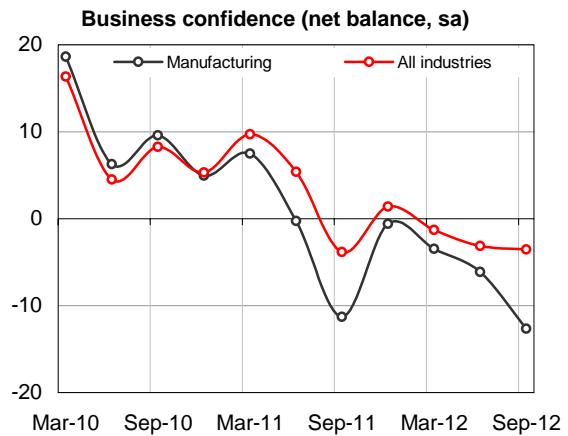
Activity Index Components: Trends in the components diverged in Q3 – confidence and prices were negative, while cost pressures improved

Business Confidence in the Manufacturing sector declined further in Q3 2012 – down to -12 points (from -5 points). This sharp decline was in contrast to a more stable trend in confidence for the broader economy. Global economic trends and the strength of the Australian dollar continue to be negative influences for Manufacturing confidence.

By sub-sector, the largest falls in confidence were recorded in the Printing and Chemicals sectors, while there was a significant improvement in the Metals category.

Product prices (a lagged measure in our index) declined slightly in Q1 2012, with growth of -0.2% quarter-on-quarter. Product prices have been weaker than the broader economy across the past three lagged quarters – however recent quarters have seen prices trend closer to the average.

The largest declines in product price growth were recorded in the Food products and Wood products sectors, while Chemicals recorded an improvement.

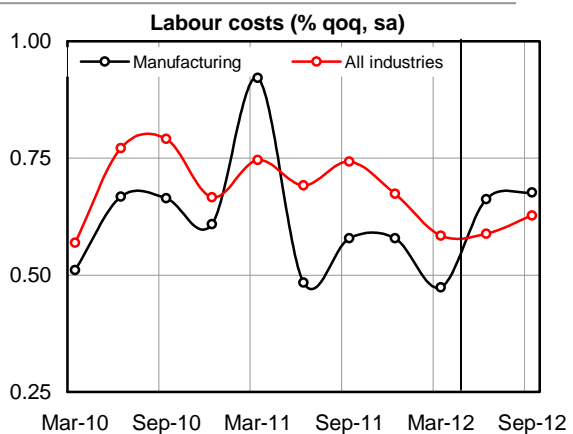
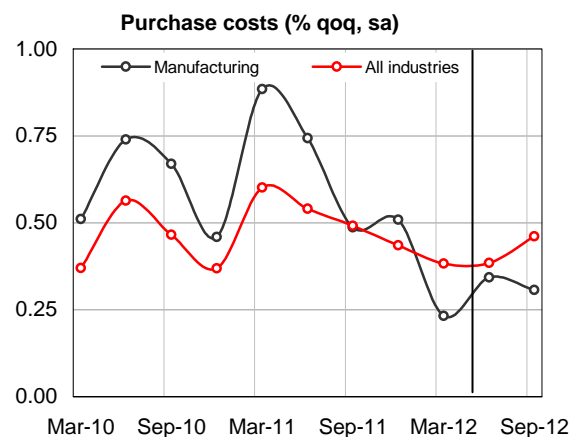


Purchase costs softened in the first quarter for the manufacturing sector, offsetting some of the negative trends from confidence and product prices. Growth in purchase costs eased from +0.5% to +0.2% in Q1. More recent trends for the past six months have been marginally stronger, but still relatively soft compared with the economy average.

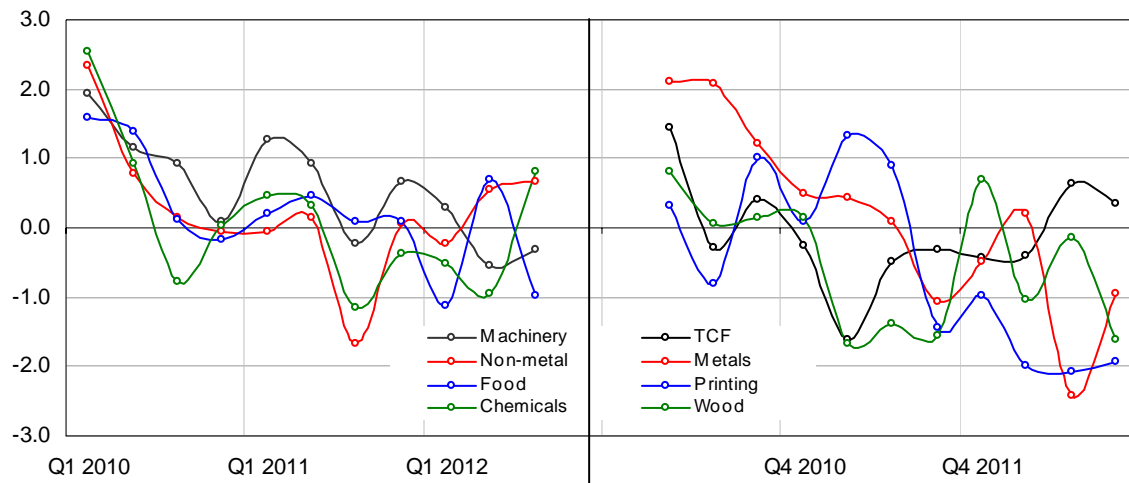
At a sub-sector level, the largest falls in the growth rate were recorded in Chemicals, Machinery & Equipment, Printing and Metal products.

Labour cost trends were marginally positive for the Index in the March quarter, with growth easing to +0.5% (from +0.6% previously). This component had minimal influence on the Activity Index in September.

Non-metallic minerals and Chemicals recorded the largest declines in the growth rate by sector, while there were increases in TCF and Printing.



Sub-Sector Analysis: Flat aggregate index masks improving trends for Chemicals & Metals, while Food & Wood deteriorated



The minimal movement in the aggregate index masks some divergent trends by sub-sector. In the September quarter, there were improving trends for the Chemicals and Metal products sectors, while producers in the Food products and Wood products sector saw deterioration.

The **Food & Beverage** activity index fell sharply in Q3 – down to -1.0 point (from +0.7 points previously). This fall was driven by a steep decline in product price growth. Confidence was also significantly weaker for the sector however this was offset by softening in both labour and purchase costs.

The **Chemicals** activity index strengthened significantly in the September quarter – increasing from -0.9 points in June to +0.8 points (the strongest level overall). Product prices improved for the sector and purchase costs contracted, however these trends were tempered by a fall in confidence.

The **Printing and Publishing** activity index was fairly stable at -1.9 (the weakest overall) – having remained around current levels since the March quarter. Producers in sector benefited from slower growth in purchase costs and less negative trends in product prices, however this was offset by a large fall in confidence.

The **Textiles, Clothing & Footwear** activity index softened in Q3, edging down from +0.6 points to +0.4 points. A fall in confidence was the main driver, however this was partially offset by positive trends in purchase costs – with growth rates declining to neutral levels in September.

The **Wood Product** activity index had the largest fall in the September quarter – down to -1.6 points (from -0.1 points in June). The sector recorded negative trends in product prices and purchase costs as well as a decrease in the level of confidence.

The **Machinery & Equipment** activity index improved in Q3 – albeit remaining in negative territory – at -0.3 points. The driver of this improvement was a slower rate of growth for purchase costs, however this was partially offset by weaker confidence and a weaker trend for product prices.

The **Metal Product** activity index improved strongly (although remaining negative) to -1.0 point in the September quarter. The sector was only one to record a strong improvement in confidence during the quarter, and this was supported by positive trends in product prices and purchase costs.

The **Non-metallic minerals** activity index was relatively stable in Q3, edging up to +0.7 points. Confidence levels in the sector were flat, and positive trends in product prices and labour costs were largely offset by a steeply negative trend in purchase costs.

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