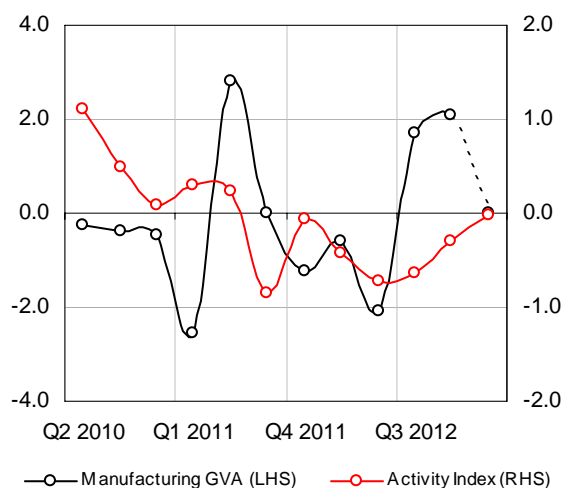


## NAB Manufacturing Activity Index – Q1 2013

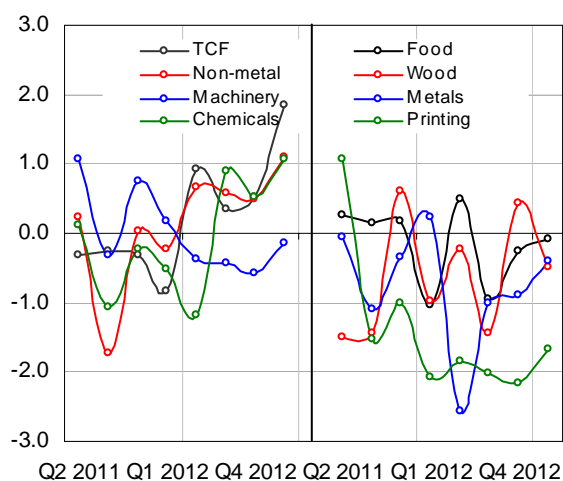
**The Manufacturing Activity Index improved in Q1, up to neutral levels – driven largely by less negative levels for business confidence. The index implies no growth in quarterly manufacturing activity – which would represent a slowdown according to recent official data.**

- NAB's Manufacturing Activity Index edged higher in the March quarter – back up to neutral levels, from -0.3 points in Q4 2012. This index level implies that there was no growth in quarterly manufacturing activity in Q1.
- The previous two quarters have seen a large divergence between our index and official data from the ABS. As highlighted in our Q4 release, the ABS series is subject to revision – with the reported increases over this period seemingly at odds with both the results of NAB's Business Surveys and anecdotal evidence from the sector.
- Business Confidence in the Manufacturing sector remained negative in Q1 2013 – but less negative than the past few quarters, at -4 points (from -10 points previously). This less negative trend was the key driver behind the Manufacturing Activity Index moving up to neutral levels. Large increases in confidence were recorded in Chemicals, the Textiles, Clothing & Footwear (TCF) sector and Machinery & Equipment.
- Final product prices recorded marginally softer trends for this index, tempering positive trends from business confidence, with growth down from +0.2% to +0.1%. Printing and Chemicals recorded the largest improvements in final price trends (albeit Printing prices still declined quarter-on-quarter). Wood products and TCF saw declining growth.
- Purchase costs increased at a marginally slower rate, down to +0.3% (below the trends recorded for the broader economy). By subsector, the changes were relatively modest, with declining trends in Metal products and TCF and an increase in Chemicals.
- Labour cost trends were also marginally softer at +0.6% – after a significant increase in the last quarter. The sectors that recorded the largest slowdown in labour cost growth were Non-metallic mineral products, TCF and Machinery & Equipment. In contrast, there were negative labour cost trends for Chemicals and Printing & Publishing.
- The upward trend for the Manufacturing Activity Index was exhibited across the subsectors of manufacturing – with the exception of Wood products, which saw a decline in the quarter.

**Activity Index to neutral levels, indicates no growth for Mfg in Q1**



**Wood products softer; all other sectors improved**



Activity Index	Q3 2012	Q4 2012	Q1 2013	Activity Index	Q3 2012	Q4 2012	Q1 2013
Manufacturing	-0.6	-0.3	0.0	Chemicals	0.9	0.5	1.1
Food, Beverage, Tobacco	-1.0	-0.3	-0.1	Printing and Publishing	-2.0	-2.2	-1.7
Machinery and Equipment	-0.4	-0.6	-0.1	Textile, Clothing, Footwear	0.3	0.5	1.8
Metal Products	-1.0	-0.9	-0.4	Wood & Paper	-1.5	0.4	-0.5
Non-metallic Minerals	0.6	0.5	1.1				

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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.

## Manufacturing Activity Index: Index edges up to neutral levels, indicative of no growth for the Manufacturing sector

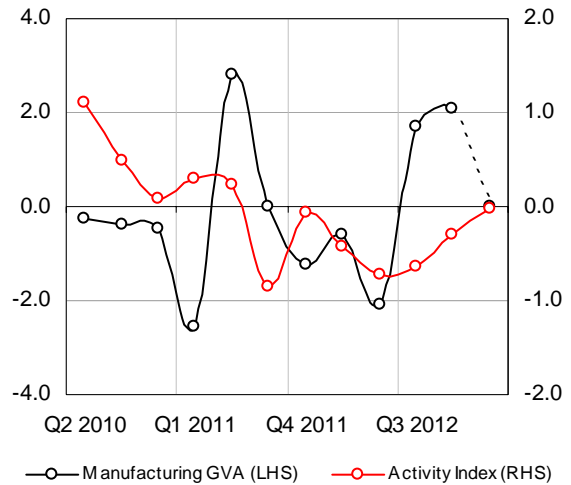
NAB's Manufacturing Activity Index edged higher in the March quarter – back up to neutral levels, from -0.3 points in Q4 2012.

This index level implies that there was no growth in quarterly manufacturing activity in Q1.

The index has been constructed to replicate movements in manufacturing activity. It comprises weighted components of business confidence and profits from NAB's Quarterly Business Survey (with the latter based on weighted movements in output and input prices, which are lagged by two quarters).

The previous two quarters have seen a large divergence between our index and official data on Manufacturing Gross Value Added (GVA) from the ABS. In the September and December quarters, our index implied declines in quarterly manufacturing activity, at around -1.3% and -0.6% respectively. In contrast, ABS data indicated increases of 1.7% and 2.1%.

The reported increases in manufacturing activity over the second half of 2012 are seemingly at odds with the results of NAB's Business Surveys and anecdotal evidence from the sector. As highlighted in our Q4 release, the ABS series is subject to significant revision – including cases of reported growth subsequently being revised to declines in later releases.



## Activity Index Components: Less negative confidence was the key driver of improved Activity Index; softer product prices offset positive cost trends

**Business Confidence** in the Manufacturing sector remained negative in Q1 2013 – but less negative than the past few quarters, at -4 points (from -10 points in the December quarter). This less negative trend was the key driver behind the Manufacturing Activity Index moving up to neutral levels.

Manufacturers continue to face a challenging economic and competitive environment. The Australian dollar has remained persistently high, while global fears remain focused on Eurozone stability.

By subsector, large increases in confidence were recorded in Chemicals, the Textiles, Clothing & Footwear (TCF) sector and Machinery & Equipment.

**Final product prices**, one of the three lagged measures in our index, recorded marginally softer trends in Q3 2012, with growth down from +0.2% to +0.1%.

This level was slightly lower than the economy average in the quarter. That said, compared with the underperformance of manufacturing prices across late 2011-early 2012, these trends represent an improvement.

At a subsector level, Printing and Chemicals recorded the largest improvements in final prices (albeit Printing prices still declined quarter-on-quarter). Wood products and TCF saw declining growth.

**Purchase costs** increased at a slightly slower rate in Q3 2012, down to +0.3%. This level was below the trends recorded for the broader economy (where there was a slight uptick in costs).

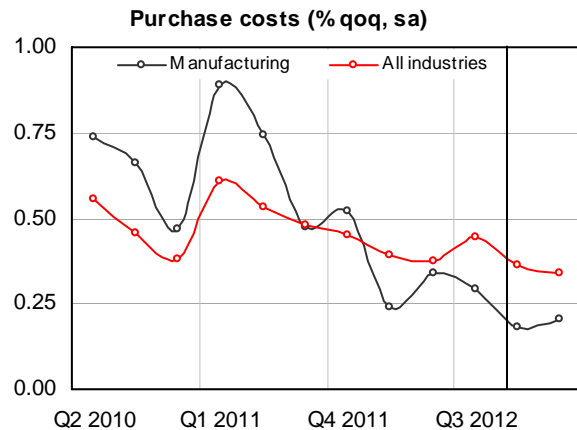
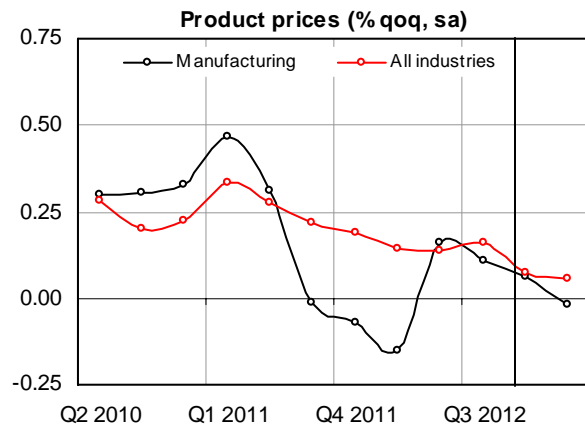
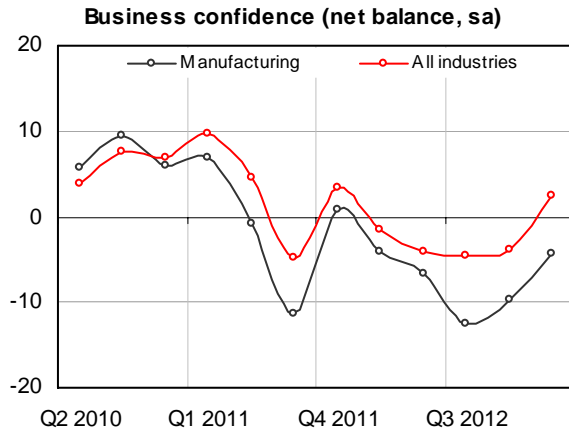
The recent trends in purchase costs have been encouraging for the manufacturing sector, with growth rates lower again in both Q4 2012 and Q1 2013, a positive trend for the Activity Index in coming quarters.

By subsector, the changes were relatively modest, with declining trends in Metal products and TCF and an increase in Chemicals.

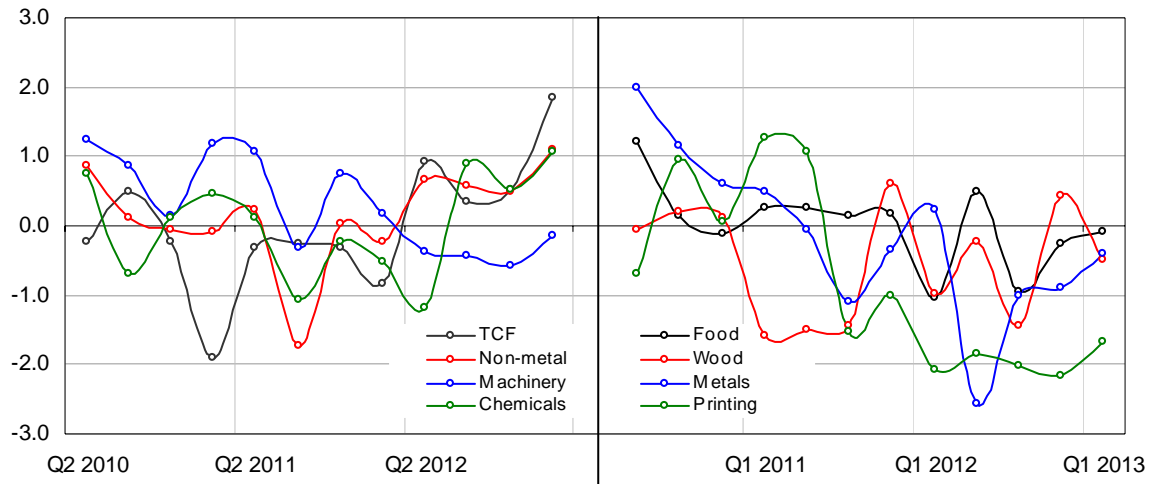
**Labour cost** trends were marginally softer in Q3 2012 at +0.6% – after a significant increase in the previous quarter pushed the measure to +0.7%.

The growth rate contracted sharply in the December quarter (down to +0.3%) – which will provide a significant boost to the Activity Index next quarter.

The sectors that recorded the largest slowdown in labour cost growth were Non-metallic mineral products, TCF and Machinery & Equipment. In contrast, there were negative labour cost trends for Chemicals and Printing & Publishing.



**Subsector Analysis: Wood products softer, but all other sectors improved to drive the Activity Index back to neutral levels**



The upward trend for the Manufacturing Activity Index was exhibited across the subsectors of manufacturing – with the exception of Wood products, which recorded a decline in the quarter.

The **Food & Beverage** activity index was slightly improved in Q1 – up to -0.1 points (from -0.3 points previously). Compared with other sectors, movements in the components of our index were relatively muted. The key drivers of this improvement were slightly stronger final product prices and slightly softer growth in purchase costs. These factors were tempered by a modest weakening in business confidence.

The **Chemicals** activity index strengthened considerably in the March quarter, up to +1.1 points (from +0.5 points in Q4). The sector was boosted by a significant increase in business confidence, however this was partially offset by worsening purchase cost trends. Higher final prices were largely cancelled out by rising labour costs.

The **Printing and Publishing** activity index recovered a little in Q1, but remained firmly negative at -1.7 points (up from -2.2 points in December). This recovery was largely the result of an improvement in final product prices along with a minor improvement in confidence, while trends for labour costs and purchase costs were both negative.

The **Textiles, Clothing & Footwear** activity index recorded the strongest improvement in the March quarter, up to +1.8 points (the strongest level in the quarter), from +0.5 points previously. The key drivers of this trend were a large increase in business confidence and an easing in purchase cost growth. Positive trends in labour costs were offset by negative moves in final product prices.

The **Wood Product** activity index was the only subsector to record a decline in Q1, down to -0.5 points (from +0.4 points previously). This sector has been one of the most volatile in our index – having recorded the largest improvement in Q4 2012. Trends for both final product prices and purchase costs were negative, driving the decline, while the positive effects of softer labour cost trends were offset by weaker business confidence.

The **Machinery & Equipment** activity index improved in the March quarter, up to -0.1 points (from -0.6 points in Q4). The main driver of the upturn was a recovery in business confidence, while trends for purchase costs were more negative. Changes to both labour costs and final product prices were relatively muted.

The **Metal Product** activity index was a little less negative in Q1, at -0.4 points (from -0.9 points in the December quarter). This result was driven by positive trends for purchase costs, with all other factors having only a modest impact in the quarter.

The **Non-metallic minerals** activity index moved higher in the March quarter, up to +1.1 points (from +0.5 points previously). Trends for both labour costs and purchase costs were positive, driving the index higher, while declines in business confidence were offset by stronger final product prices.

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