Industry brief: manufacturing update

Manufacturers face input cost pressures and profit squeeze

Across manufacturing as a whole:

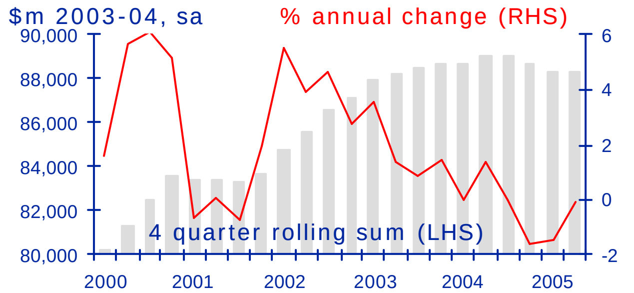
- Growth in output, employment and profits began to falter in 2005, but total sales and some exports powered on, as manufacturers wound down their inventories instead.
- The outlook is for slower, but still positive, trading conditions for the remainder of 2005-06, due to a general cooling of the economy and historically high input (oil and metals) prices.

Across individual manufacturing sectors:

- Sectors that rely on metals and petroleum products are seeing inflationary pressures build due to high prices for key commodity inputs, such as oil, iron ore and some other metals.
- With the worst of the drought now over, sectors that rely on food and agricultural inputs face a more stable input pricing outlook.
- Demand patterns for cars and some other manufactured goods is changing due to high oil prices — naturally, energy efficiency is now of greater concern.

Recent trends in Australian manufacturing

Output is down from its 2004 peak

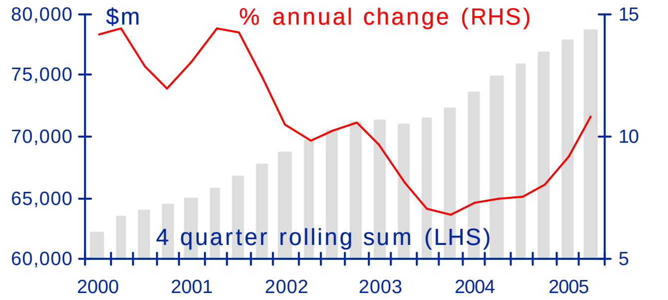


Gross value added in 2003-04 dollars.
Source: ABS 5206.16 (seasonally adjusted).

Manufacturing output accelerated slightly in each of the first two quarters of 2005. Year-on-year growth however, has been negative in each quarter since June 2004. Manufacturing contributed around 10% of Australian GDP in June 2005, compared to 14.5% in 1985.

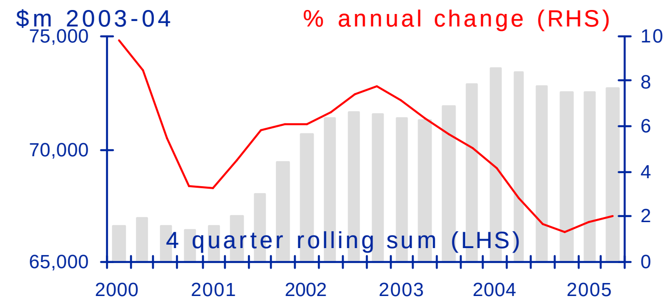
By contrast, the nominal value of manufacturing sales grew 10.8% to $78,648 million for the year to June 2005. In volume terms however, annual sales growth was relatively flat, at around 2% to June 2005. This may indicate an increase in the average unit value of the goods being sold, perhaps signalling an uptake in inflation.

The nominal value of sales continued to grow...



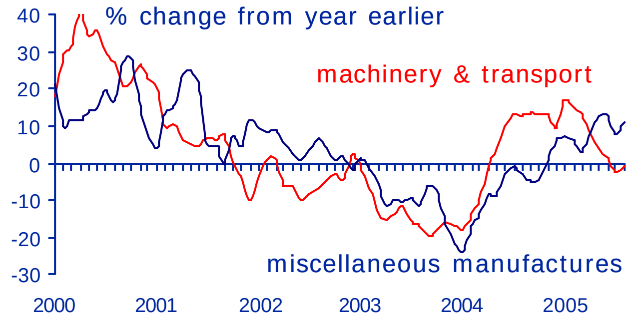
Source: ABS 5676.01 (trend).

... but their volume began to level out.



Source: ABS 5676.03 (chain volume measures, trend).

Are elaborately transformed exports slipping?

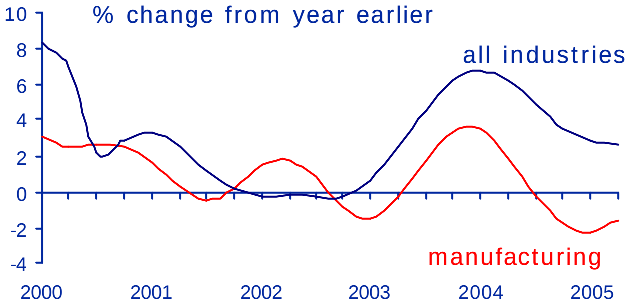


Change in monthly nominal value from a year earlier, 3 month moving average.
Source: ABS 5206.16 (original).

Most Australian 'elaborately transformed' goods are sold domestically. Exports of machinery and transport grew through 2004 and into early 2005 but have since dipped. By June 2005, the value of monthly machinery and transport exports was down 8.2% on a year earlier, picking up in July but then falling again (by 1.5%) in August. This is probably due to the stronger Australian dollar but it may also reflect changes in global vehicle and machinery markets as oil and petrol prices climb.

The nominal value of exports of 'miscellaneous manufactures' (including furniture and fittings, clothing, footwear, scientific and photographic equipment) has, in the past, followed the same trend as machinery and transport exports. Recently however, it has grown (in year on year terms) in every month but one since September 2004. The nominal value of exports of these goods was nearly 20% higher in August 2005 than in August 2004.

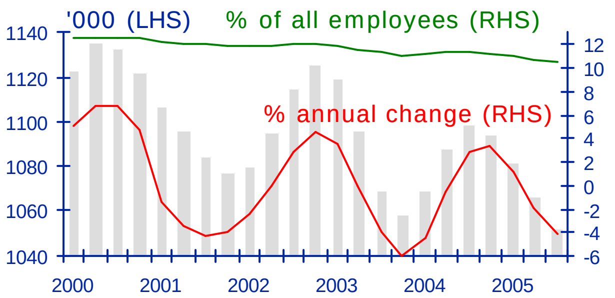
Manufacturing inventories reduced in 2004-05



Change in the constant value of quarterly inventories from a year earlier, chain volume measures in 2003-04 dollars. Source: ABS 5676.06 (trend).

One reason why manufacturing output — but not sales — slowed in 2005, is that businesses have been reducing their inventories in each quarter since June 2004 (compared with a year earlier). That is, they have been selling down their existing stock instead of increasing their output. Other Australian industries, including wholesale and retail, continued to increase their inventories over the same period, albeit at a slower rate than in 2003-04.

Employee numbers are cyclical and falling



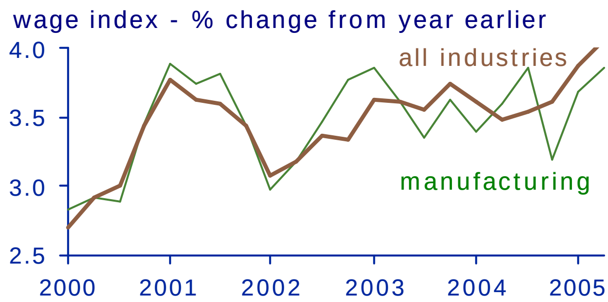
Source: ABS 6203.0 (trend).

Manufacturing employment levels are more volatile than output or sales (due to inventory/stockpile cycles and other factors), but the long-term trend is down. In September 2005, about 10.5% of Australian employees worked in manufacturing (close to its share of GDP), compared to around 17% in 1985 (well above its share of GDP at the time). This ongoing trend is due to changing productivity as well as changing trade patterns — that is, factories are making the same amount or more goods with fewer workers, but we are importing more goods as well.[1]

This trend can be seen in other developed countries also. The USA has a similar proportion of employees working in manufacturing as Australia (around 10% now, compared to around a quarter in 1970). Britain, Canada, France and Japan have slightly more, at 14-18%, and Germany and Italy have a higher proportion again, at around 22%. Among developed economies, countries with a lower proportion of jobs in manufacturing tend to have a better performing services sector and lower unemployment rates overall (OECD).

The OECD estimates that labour productivity in Australian manufacturing grew by 2.2% per year from 1993 to 2001 — about the middle of the range for manufacturing in OECD countries, but well below the USA (and France's) 4% growth, and well below growth rates in most other Australian industries.[2]

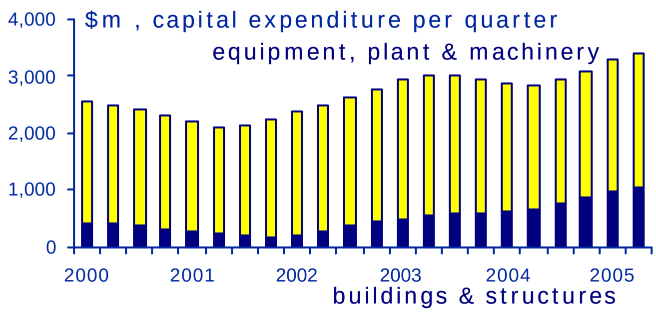
Wages growth has been mostly below average



Source: ABS 6345.05.

Reflecting this lower productivity growth and other factors, wages growth has generally been at a lower rate in manufacturing than in all industries over the past two years, although the difference is not large.

The building boom touched manufacturers too



Source: ABS 5625.01 (trend).

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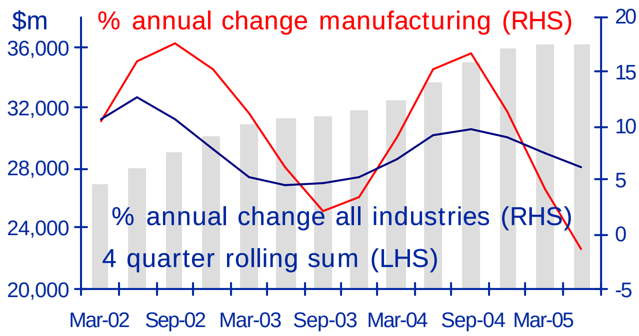
[1] Some of the decline in employment is also attributable to manufacturers contracting out cleaning and other service jobs that, statistically, would previously have been counted as 'manufacturing' but are now counted as 'services'.

[2] OECD 2005, *OECD Economic Surveys: Australia.*

Reflecting the national building and property boom of recent years, the nominal value of capital being spent on buildings and structures by manufacturers has risen each quarter since early 2002. Some of this investment may have been at the expense of new plant and equipment, which has been more sporadic. Expenditure on equipment shrank through 2004, but picked up again in the first half of 2005. Manufacturing expenditure on equipment, plant and machinery was 8.6% higher in the June quarter of 2005 than it had been a year earlier.

There is some evidence that manufacturers have been using their capital more productively than have some other Australian industries. The Productivity Commission and OECD estimated that multi-factor productivity in manufacturing grew 1.2% per year from 1998-99 to 2002-03, compared with 0.4% for all Australian industries (OECD 2005).

By June 2005, profits were falling



Nominal gross operating profits, all businesses.
Source: ABS 5676.15 (trend).

Nominal gross profits for all manufacturing businesses (companies and unincorporated) fell in each consecutive quarter from June 2004 to June 2005. Nominal profits in June 2005 were 1.2% lower than in June 2004 — the first decline (in year on year terms) for at least 3 years. Manufacturing profit growth appears to fluctuate more than the all industries average. Manufacturing was below the average profit growth rate for all industries in 2005, although it had been above average in 2004.

Summary of recent trends

Trading conditions for manufacturing have clearly softened in 2005, compared with the strong growth experienced by the industry in 2003-04. Output, employment, inventories and profits had all seen the beginnings of negative growth by mid-2005. On the other hand, growth rates for sales, some exports and investments remained firmly positive.

Issues and challenges for Australian manufacturing in 2005-06

In line with the recent trends described above (and at least partly in response to them), several surveys of manufacturers reported declining expectations in the September quarter of 2005. The ACCI-Westpac Survey of Industrial Trends reported falls in September (relative to June) of its indexes for expected output for the next three months, profit expectations for the next 12 months, actual new orders, expected orders for the next 3 months, investment intentions and hiring intentions.

In a similar vein, the Australian Industry Group Pricewaterhouse Coopers Quarterly Survey of Australian Manufacturing for September 2005 reported 'the weakest quarterly manufacturing performance since 2001'. It indicated rising input costs and falling sales, new orders and profits.

A separate report by the Australian Industry Group[3] in August highlighted the perils of rising input costs to Australian manufacturers. It found almost 90% of surveyed manufacturers reporting increased raw materials costs in 2005, with an average increase of 11.7%, rising to almost 20% in fabricated metals. About half these costs are estimated to have been absorbed into profit margins. The effects of this can be seen in the negative profit growth noted above. Nevertheless, manufacturers in this survey were relatively optimistic about future trading conditions and expected smaller input price increases in 2006.

Commodity prices can be expected to ease in 2006, but will continue to put pressure on manufacturers, as the global commodities boom buoys prices for many key raw materials and especially metals. Food and agricultural commodities — and the manufacturers that process them — will be far less affected by high input prices, especially with the end of the drought through much of Australia. Global consumer demand changes are seeing wool prices dwindle over the long term, but cotton prices grow.

Selected commodity price forecasts

US$/t	Sept 05	*Dec 05*	*Dec 06*
WTI crude oil	64.1	*70.0*	*60.0*
Aluminium	1851	*1757*	*1684*
Iron ore	62.70	*62.70*	*61.50*
Zinc	1305	*1309*	*1268*
Nickel	13.80	*14.30*	*12.50*
Wool (EMI A$)	724	*750*	*735*
Cotton (Usc/lb)	46.29	*59.00*	*67.00*

Source: Economics@ANZ.

Oil prices are also expected to ease through 2006, but will remain at a relatively high level by historical

[3] Australian Industry Group 2005, *The Surge in Manufacturing Input Costs.* Based on a survey in June 2005.

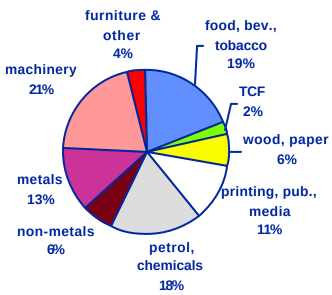
standards. This will mean higher ongoing transport and energy costs for all manufacturers (and other businesses), and higher input prices for businesses that use petroleum-derived non-substitutable ingredients (such as plastics, chemicals, pharmaceuticals and some other industries).

For some manufacturers, higher petrol prices will also affect their demand structure. Petrol prices are already changing the type of cars being demanded of motor vehicle manufacturers (in favour of smaller, more fuel efficient models), and may affect demand in other product categories also.

The general Australian labour market is expected to be not as tight in 2006 as it has been in 2005, but some skills and trades will remain in short supply. Manufacturing sectors that require a more skilled or specialised workforce might see an increase in labour costs in line with the wider labour market, particularly if they are competing with the mining or construction industries for engineering-related skills.

Other manufacturing sectors, such as textiles clothing and footwear and some machinery sectors, are more likely to follow their own long-term trends and see further reductions in output and employment.

Manufacturing sectors, June 2005



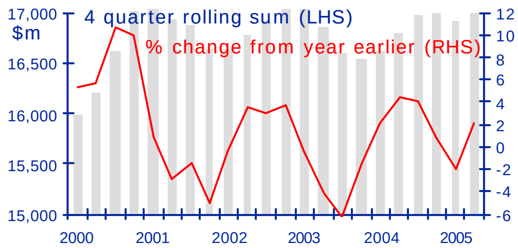
In terms of output (real gross value added), the largest manufacturing sectors in 2005 are machinery and equipment (21% of manufacturing output), food beverages and tobacco (19%) and petroleum, coal and chemical processing (18%). Trends in these industries will therefore dominate the 'headline' manufacturing activity and sales data cited above.

Sub-sectors' shares of manufacturing activity have been relatively stable over the last two decades. The exception is textiles, clothing and footwear, which has shrunk from 7% of manufacturing output in June 1985 to 2% in June 2005.

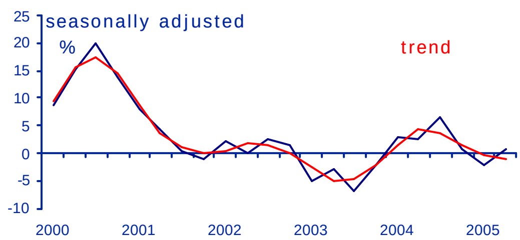
At the same time, manufacturing as a whole has shrunk as a share of Australian GDP, from around 14.5% in 1985 to 10% in 2005 (see above) as the services industries have expanded.

Food, beverages and tobacco

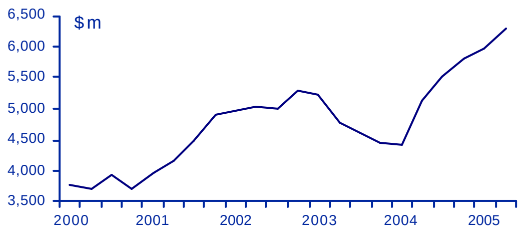
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: meat and smallgoods; dairy; fruit, vegetable and seafood processing; oils and fats; flour, cereals and baking; confectionery; petfood; soft drinks; beer; wine; spirits; and tobacco processing.

Output from food, beverages and tobacco processors fluctuated between $16,500 and $17,000m over 2004-05. In June 2005, output bounced up to the highest quarterly value to date ($4,357m in seasonally adjusted $2003-04 dollars).

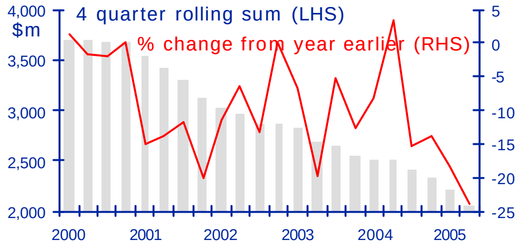
As for manufacturing as a whole, the volume of sales by food, beverages and tobacco manufacturers flattened out in 2005, settling at $16,390m for the year to June 2005 and 1.1% below the previous year's total (trend, in constant $2003-04 dollars).

Sales growth slowed in nominal terms for food but picked up for beverages. From June 2004 to June 2005, the nominal value of sales by meat and smallgoods manufacturers grew by 2.8% (compared to 8.8% in the year to June 2004), dairy manufacturing sales grew by 0.4% (compared with 3.5% in the year to June 2004), fruit and vegetable processors' sales grew by 12.5% (compared with 16.7% a year earlier), and bakery producers' sales declined by 1.9%. By contrast, the nominal value of beverages manufacturers' sales grew 13.3% in the year to June 2005, on top of 7.1% growth the previous year.

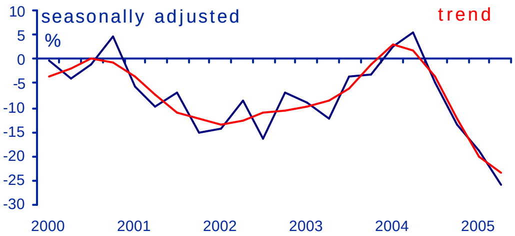
This sector saw good profit growth in 2004-05, after a year of decline in 2003-04 (due, in part, to the drought). Nominal company profits (EBIT) grew by 23.6% and gross operating profits grew by 12% in the year to June 2005. Gross operating profits for unincorporated businesses remained unchanged.

Textiles, clothing, footwear & leather

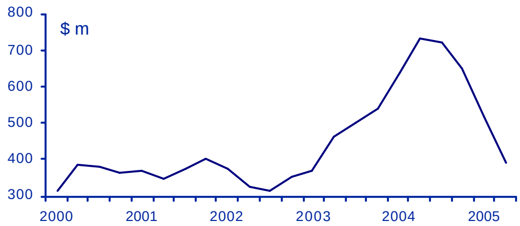
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: wool scouring; synthetic, cotton and wool fibres; textile products (such as fabrics, carpets, rugs, bags and car seat covers); ropes; hosiery; knitted and all other clothing; and leather and fur tanning and manufacturing.

The Australian TCF sector has been in decline for many decades due to reduced industry protection, changing trade patterns and changing consumer preferences. Despite individual bright spots of growth (e.g. in certain types of low volume, fast turn-around clothing), Australian TCF output will continue to decline.

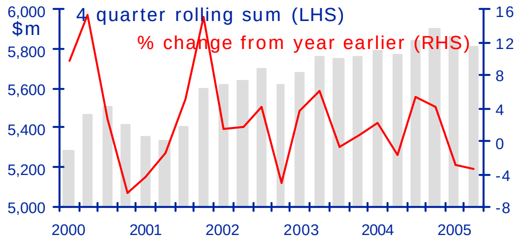
After a brief period of growth in early 2004, sales (by volume) moved back into negative growth in 2005. Nominal sales have also fallen dramatically in most sub-sectors of TCF. The nominal value of sales of textile fibre, yarn and woven fabrics in 2004-2005 was almost half their 2000-01 value ($1,279m compared to $2,337m). Similarly, nominal sales from the already small knitting mills sub-sector fell from $725m in 2000-01 to $129m in 2004-05, while clothing manufacturers' sales fell from $5,252m in 2000-01 to $2,760m in 2004-05.

By contrast, nominal sales of 'other textiles', including blinds, tents, sails and tarps, have grown, albeit from a small base. Sales of these products grew 4.7%, to $2,812m, in the year to June 2005. Footwear has also managed recent sales growth (in quarter on quarter terms), but is still well down on its sales levels of 2, 5 and 10 years ago.

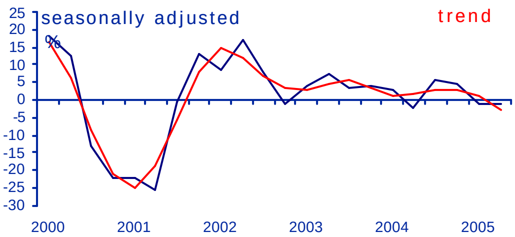
After a rare boost in 2003-04, TCF company profits (EBIT) declined again in 2004-05. As with sales, there are likely to be isolated 'bright spots' within this pattern of falling profitability.

Wood and paper products

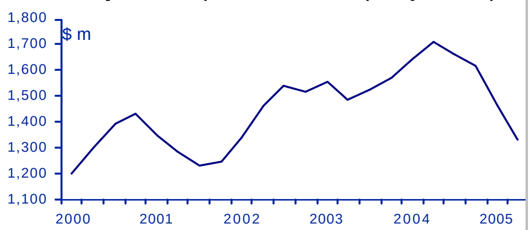
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: logs and dressed timber; plywoods and veneers; wooden building components (e.g. house, door and window frames); pulp, paper and cardboard; casks, crates, boxes, bags and other wood, paper and cardboard packaging.

Output of wood and paper products has been slowly trending upwards over the last five years. Annual growth however, was negative in the March and June quarters of 2005.

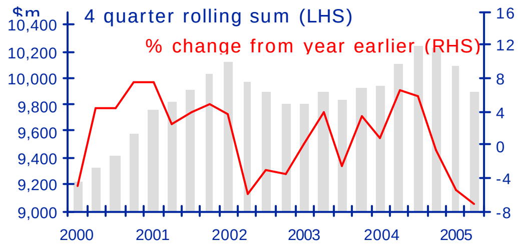
Wood and paper sales growth (by volume) has been relatively flat, averaging 0.9% over 2004-05 (4 quarter average, trend, $2003-04 dollars). For the year to June 2005, nominal sales of sawn and dressed timber products fell 0.9%, while other timber products sales (veneers, plywoods and house components) grew by 1.0% and paper and paper products sales grew by 0.1%. These sales trends may reflect an easing of demand for timber and timber products more generally, as Australia's residential building boom finally slows down.

As for manufacturing as a whole, company profits in wood and paper products grew in 2003-04 but have since fallen. Company profits (EBIT) in June 2005 were 30.9% lower than in June 2004 and 10.8% lower than in June 2003. Company gross operating profits dropped 24% from June 2004 to June 2004.

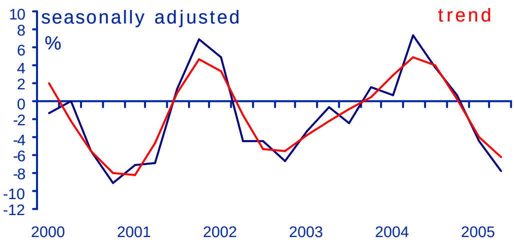
Gross operating profits for unincorporated businesses (albeit very small, at $98m for 2003-04) increased slightly, to $119m, for 2004-05.

Printing, publishing & recorded media

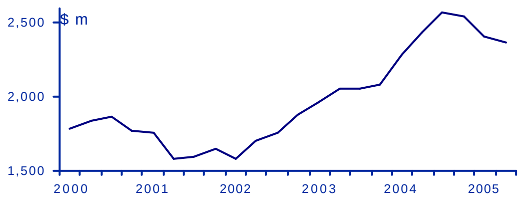
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: paper stationery; all printing, bookbinding and other printing services; printing of newspapers, magazines and books; and manufacturing pre-recorded audio and video products such as CDs, DVDs and tapes (excluding the value of the original production of music and film).

The value of output for the printing, publishing and recorded media industry in the last three quarters of 2004-05 was lower than output a year earlier (seasonally adjusted GVA, $2003-04 dollars). Output in June 2005 was 7.2% lower than June 2004 and 1.2% lower than in June 2003.

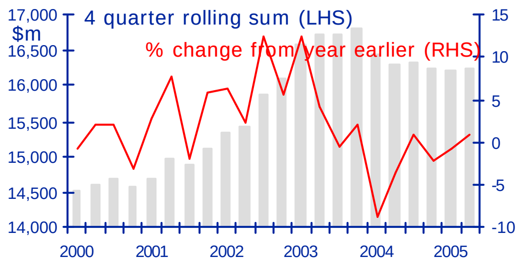
In volume terms, sales in the June quarter 2005 were 6.1% lower than in June 2004 (trend, $2003-04 dollars). Nominal sales for printing and services to printing grew 1.5% between June 2005 and June 2004, but publishing sales fell 6.6%.

Recorded media manufacturing and publishing sales were down 8.8% on June 2004 and 31.5% on June 2003. The nominal value of recorded media sales have declined in every quarter (relative to the same quarter a year earlier) since December 2003. This is probably due to declining sales of recorded video — and especially audio — products in the face of new media and technology developments.

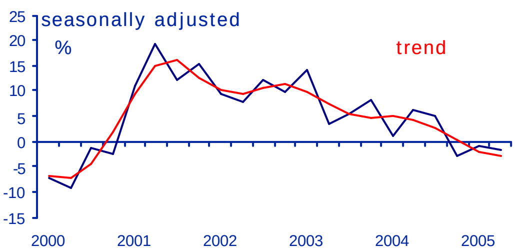
Nominal company profits (EBIT) for printing, publishing and recorded media fell in each of the last three quarters of 2004-05, relative to a year earlier. Company profits for the year to June 2005 totalled $2,363m, down 2.9% on 2003-04 profits. Another $199m was earned by unincorporated businesses in 2004-05, up slightly from $190m in 2004-05.

Petroleum, coal & chemicals

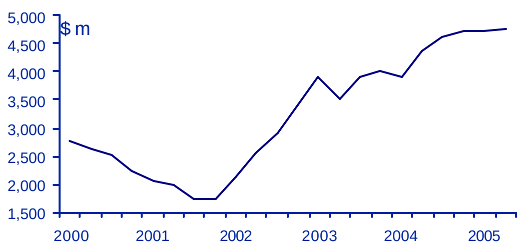
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: petrol refining; coal processing; fertilisers; industrial gases; resins; industrial chemicals; explosives; paint; medicines and pharmaceuticals; pesticides; detergents; cosmetics; ink; rubber and tyres; and all plastic products.

Real annual output of petroleum, petroleum and coal products, chemicals and related products peaked in late 2003 and has since fallen to around $16,250m (in $2003-04 dollars).

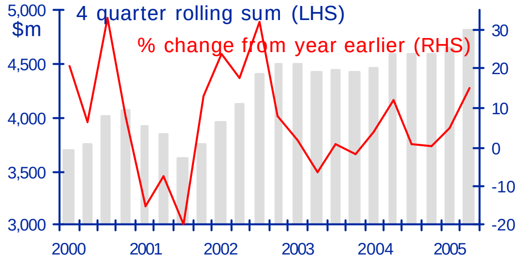
Sales growth for this manufacturing sector have been positive but slowing, in volume terms, since early 2001. In 2004-05 however, seasonally adjusted growth was negative in three quarters and trend growth was negative in two quarters, indicating an actual shrinkage in the volume of sales. Much of this fall in sales volume appears to have been in chemicals rather than petroleum products.

High oil prices have meant the nominal value of sales of refined petroleum, petroleum products and plastics grew strongly in 2004-05. In the June quarter 2005, the nominal value of refined petroleum sales (which account for about half the total value of nominal sales in this sector) was up 19.8% on the year before (which was in turn 32.4% up on June 2003), petroleum and coal product sales were up 33.3%, plastics sales were up 38.1% and complex chemicals were up 7.1%. By contrast, the nominal value of basic chemicals sales fell by 5.8% from June 2004 to June 2005, and rubber products sales grew only 1.5%.

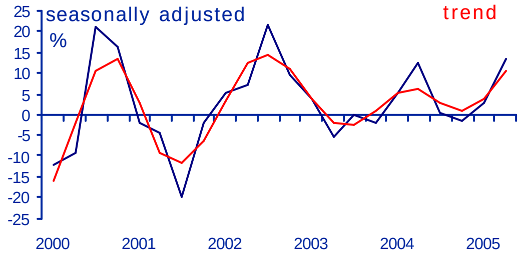
After strong profit growth through 2002 to late 2004, profits flattened in the March and June quarters of 2005, but stayed at a historically high level. Sustained high oil prices may be an issue for further profit growth in the short to medium term, although global oil prices are forecast to fall somewhat in 2006.

Non-metallic mineral products

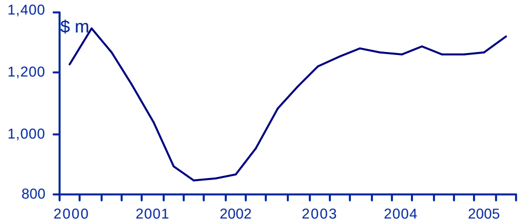
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes glass, clay, ceramics, cement and concrete.

Annual growth in output growth in this sector has been positive since the December quarter 2003. Annual output grew 14.9% from June 2004 to June 2005, on top of 11.8% growth the previous year. Sales volumes (trend, in $2003-04 dollars) have been growing since the September quarter 2003. In June 2005, seasonally adjusted sales were 13.2% higher than in June 2004 (10.4% trend), while June 2004 was 12.2% higher than June 2003 (6.1% trend).

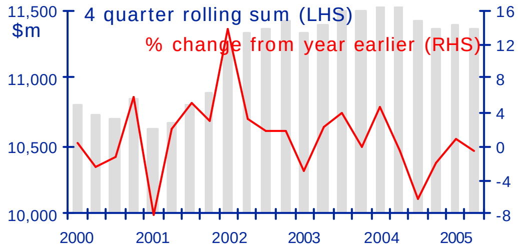
All the sub-sectors of this sector saw positive annual growth in the nominal value of sales in both the March and June quarters of 2005. The nominal value of glass sales grew 15.2% from June 2004 to June 2005, ceramics grew 26.6%, cement and concrete grew 10.9% and other non-metallic mineral product sales grew 26.1%. Cement and concrete accounted for two thirds of the nominal value of sales in this sector in 2004-05.

Company profits (EBIT) dropped in 2001 but have since picked up again. Company profits in this sector grew 15.9% from June 2004 to June 2005, on top of 9.5% growth the previous year.

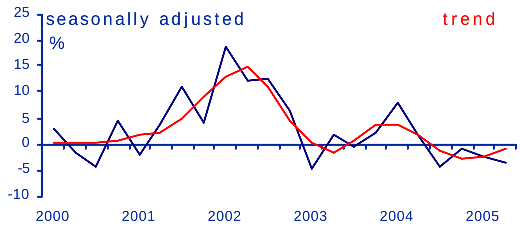
Growth and activity in this sector is closely connected to the building and construction industry, which has been strong for several years but is now slowing in some locations around Australia. Changes in building technologies may have also boosted demand in this sector, particularly the increased use of pre-fabricated concrete and cement products in residential and other construction.

Metal products

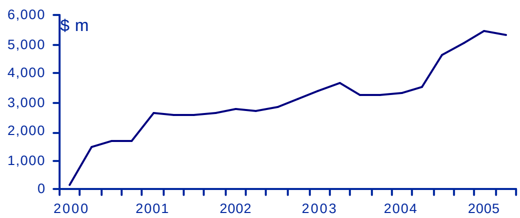
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: iron and steel manufacturing, casting and forging; the smelting and refining of aluminium, copper, silver, gold, lead, zinc and other metals; basic, structural and architectural metal products; sheet metals; hand tools and general hardware; wire; nuts and bolts; pipes; metal coatings; and fabricated metal products.

Annual output in this sector peaked in early 2004, and has since sat at around $11,360m (in $2003-04 dollars). The decline has been relatively modest however, with output in June 2005 0.6% lower than in June 2004, which in turn was 0.6% lower than in June 2003. Annual output growth averaged –2.0% in 2004-05.

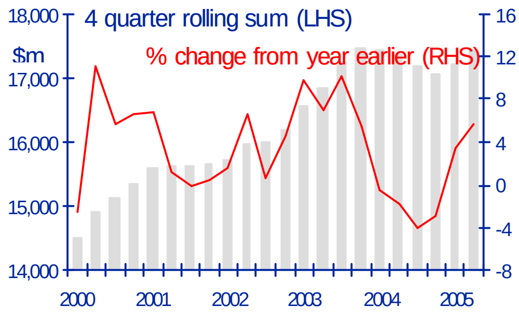
After a year of growth in 2003-04, growth in the volume of sales (year on year) was negative in every quarter of 2004-05, in both seasonally adjusted and trend terms (in $2003-04 dollars).

The nominal value of sales showed the influence of strong raw metals prices over the past year, especially for iron and steel. Nominal sales of sheet metal products grew 47.7% between June 2004 and June 2005, while fabricated metal product sales grew by 15.4%. Curiously, the nominal value of structural metal product sales grew by only 0.8% over the same period, and non-ferrous metal product sales grew by 3.1%.

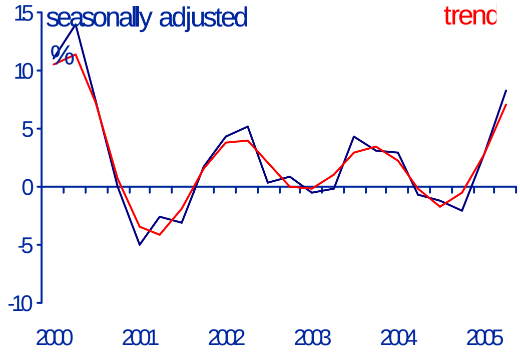
Company profits (EBIT) fell by 7.5% from June 2004 to June 2005, the first fall (in year on year terms) since the December quarter of 2003. This fall however, was from an historically high profit level in late 2004 and a long-term upward trend. Annual profit growth averaged 52.8% for the four quarters of 2004-05, compared with –4.9% for 2003-04.

Machinery and equipment

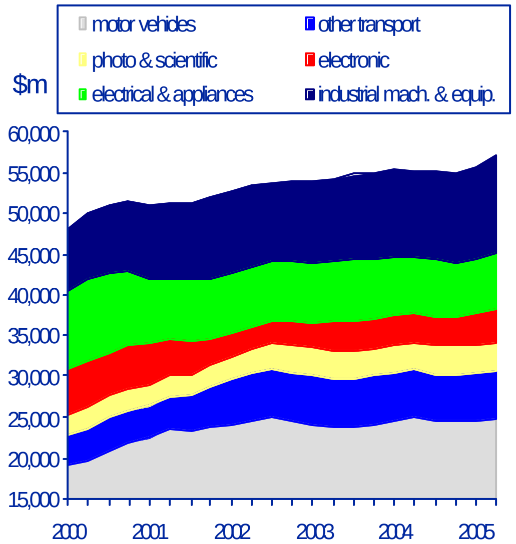
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Nominal annual sales (4Q rolling sum)



Annual profits (nominal company EBIT)

This sector includes: motor vehicle bodies and components; ships and boats; railway rolling stock and equipment; aircraft; other transport; photographic, scientific and medical equipment; computers, telecommunications and business machines; all electronics; household appliances; electric cables; batteries; lights; and all agricultural and industrial machinery.

Annual production in this large and varied manufacturing sector peaked at $11,620m in March 2004. The peak for quarterly production however, was as recent as March 2005, indicating output from this sector may yet grow further in the short to medium term (seasonally adjusted in $2003-04 dollars).

The seasonally adjusted volume of sales grew 8.14% from June 2004 to June 2005 (7% in trend terms), after a relatively flat year in 2003-04 (1.9% trend growth in $2003-04 dollars). This represented the strongest sales growth (by volume) since 2000.

Motor vehicle and vehicle parts manufacturing dominate this sector, accounting for about 43% of total nominal sales in 2004-05 ($24,676m of $57,042m). Nominal motor vehicle and parts manufacturers' sales in June 2005 were the highest to date in both quarterly and annual terms. However, this represented only 1.7% sales growth on the June quarter 2004 and, due to lower nominal sales in the earlier quarters of 2004-05, an average of –1.6% year on year growth across 2004-05.

Nominal sales of the much smaller 'other transport equipment' sub-sector fared better, with 14.9% growth from June 2004 to June 2005 and 5.9% average annual growth across 2004-05. Similarly, the industrial machinery and equipment sector (which accounts for about 20% of total sales for this sector) increased nominal sales by 16.1% from June 2004 to June 2005, and averaged 12.6% year-on-year sales growth during 2004-05. These sectors are more closely tied to activity in the mining industry than other machinery and equipment sub-sectors. Mining and mining services have been growing steadily off the back of a global commodities prices boom in 2004-05.

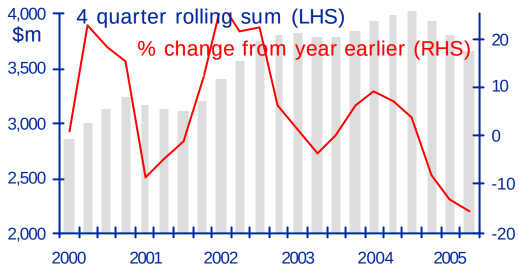
Among the smaller sub-sectors, electronic equipment (which includes telecommunications and electronic business products) saw the greatest growth in nominal sales in 2004-05, with June quarter 2005 sales 55.2% higher than in June 2004 and 24% average annual growth for the 4 quarters of 2004-05. Electrical and appliance manufacturing sales grew 14.9% from June 2004 to June 2005, but had been strongly negative in each of the six preceding quarters (in nominal year on year terms).

Photographic and scientific equipment sales were down 15.8% in June 2005, compared with June 2004. Sales in the four quarters of 2004-05 were 1.9% lower, on average, than a year earlier. Sales by this sub-sector have grown only marginally in recent years, as manufacturers have struggled to adjust to new digital technologies and related changes in consumer demand.

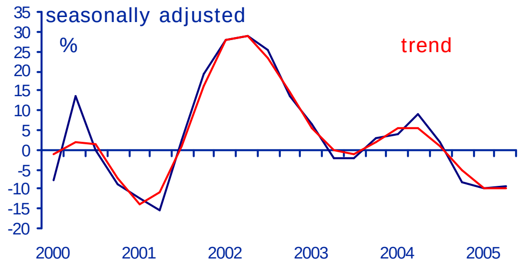
Nominal company profits (EBIT) for this sector as a whole were up in both the March and June quarters of 2005, but had shrunk in each of the previous three quarters (compared with the same quarters a year earlier). In the longer term, nominal company profits are still trending up.

Furniture and other manufacturing

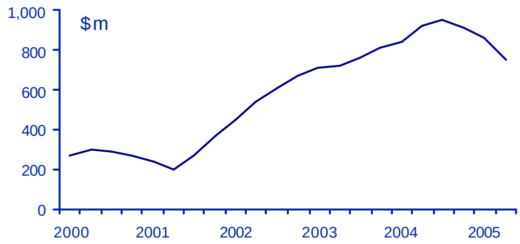
Annual output (CVM $2003-04, sa)



Annual sales growth (CVM, $2003-04)



Annual profits (nominal company EBIT)



This sector includes: wooden, upholstered and metal furniture; mattresses; storage systems; shop fittings; jewellery and silverware; toys and sporting goods; and miscellaneous items.

Output in this sector appears to have peaked in early 2004. Output fell in each of the December, March and June quarters of 2004-05, compared with a year earlier and compared with each previous quarter (seasonally adjusted, in $2003-04 dollars). The volume of sales fell in each of these three quarters also, in both seasonally adjusted and trend terms (in $2003-04 dollars).

When measured in nominal sales, this sector is dominated by furniture manufacturing, with about 70% of all sales in 2004-05 ($6,979m of the $10,163m total). Nominal furniture manufacturing sales fell 26.7% from June 2004 to June 2005, with an average fall of 14% across 2004-05 compared with a year earlier.

Prefabricated building manufacturing is a small sub-sector, Annual nominal sales rose to $384m in 2004-05, from $320m in 2003-04. Most of this growth occurred in the June quarter of 2005, after an apparent sales slump that lasted from December 2003 to March 2005.

'Other manufacturing', which includes everything from toys to pens to jewellery grew by an average of 17.3% in each quarter of 2004-05, in year-on-year terms, albeit from a small base. Total nominal sales were $2,800m for 2004-05.

Nominal company profits (EBIT) in this sector peaked in September 2004, and have since fallen in each of the December, March and June quarters of 2004-05, compared with a year earlier and compared with each previous quarter.

Data sources: ABS 5206.16, 5676.03 and unpublished; OECD; Economics@ANZ.

Julie Toth
Senior Economist, Industry.
Economics@ANZ
email: tothj@anz.com

ANZ

ANZ is represented in:

AUSTRALIA by:
Australia and New Zealand Banking Group Limited ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:
Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:
ANZ Securities, Inc. (Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:
ANZ National Bank Limited
Level 7, 1-9 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

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