

Australian Industry Index

Services surge signals solid start to year

Key findings

- The Australian Industry Index® lifted by 9.0 points to near neutral in February, the strongest headline result in four years.
- The uplift was driven by significant lifts in the employment, input and new orders indicators, while activity/sales remained flat.
- Business services activity increased significantly, supported by stronger orders in the new year. The rise in the headline indicator was primarily driven by services.
- Construction lost momentum in February, as regulatory burden and skills shortages weighed on operations. Manufacturing remained in contraction with soft demand conditions.
- Cost factors remain with the sales price indicator well behind input prices and wages, pointing to ongoing margin pressure.

Be a part of this report.
No registration required, open to any Australian business.

February 2026

Australian Industry Group Australian Industry Index® (all industry) **-1.5**

Australian PMI® (manufacturing) **-15.6**
▲ 3.4 points

Australian PCI® (construction) **-8.2**
▼ 12.8 points

Activity/sales **-11.2**
▲ 0.1 points

Employment **12.8**
▲ 16.2 points

New orders **-2.1**
▲ 11.4 points

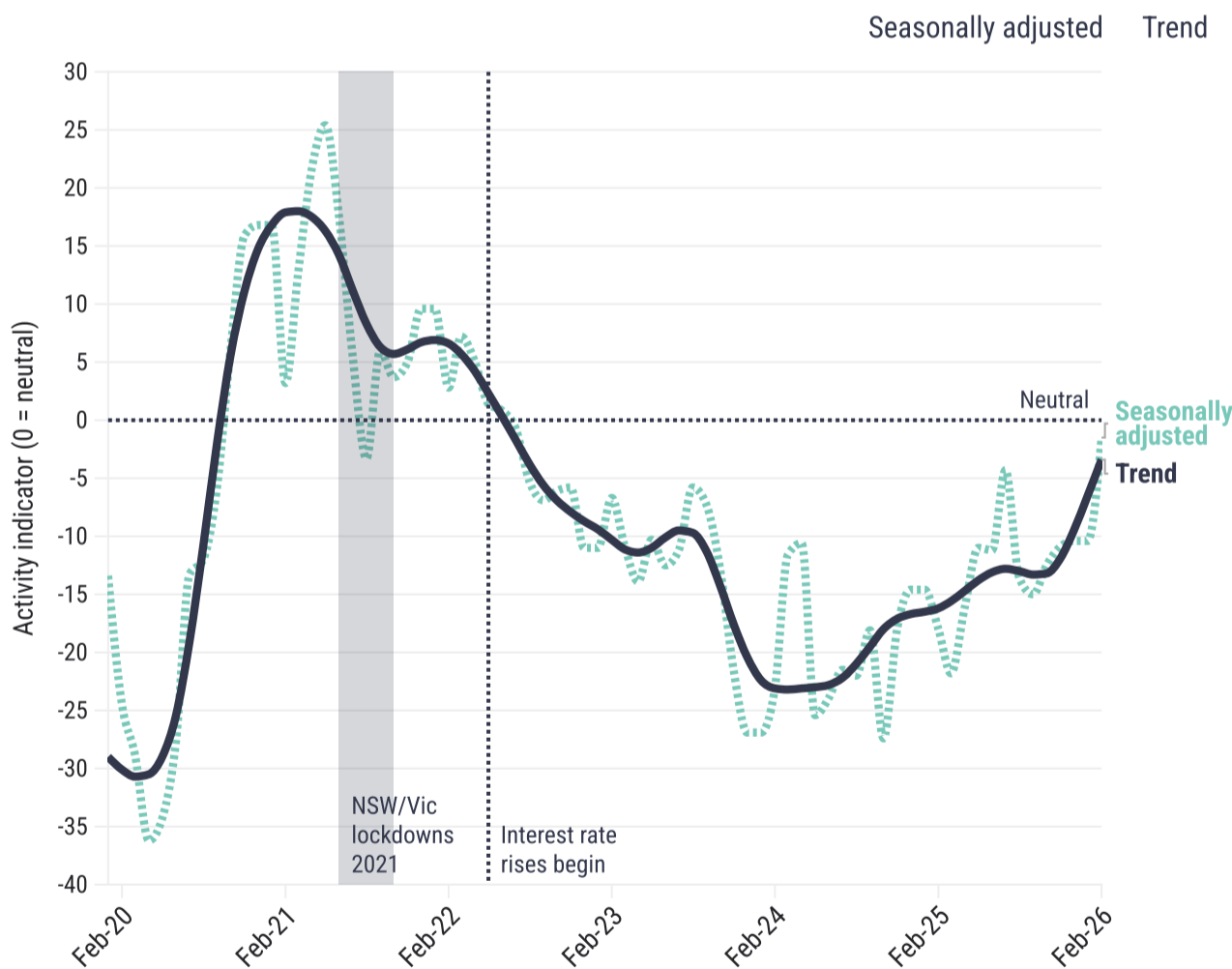
Input volumes **8.1**
▲ 23.4 points

Input prices **43.5**
▲ 8.8 points

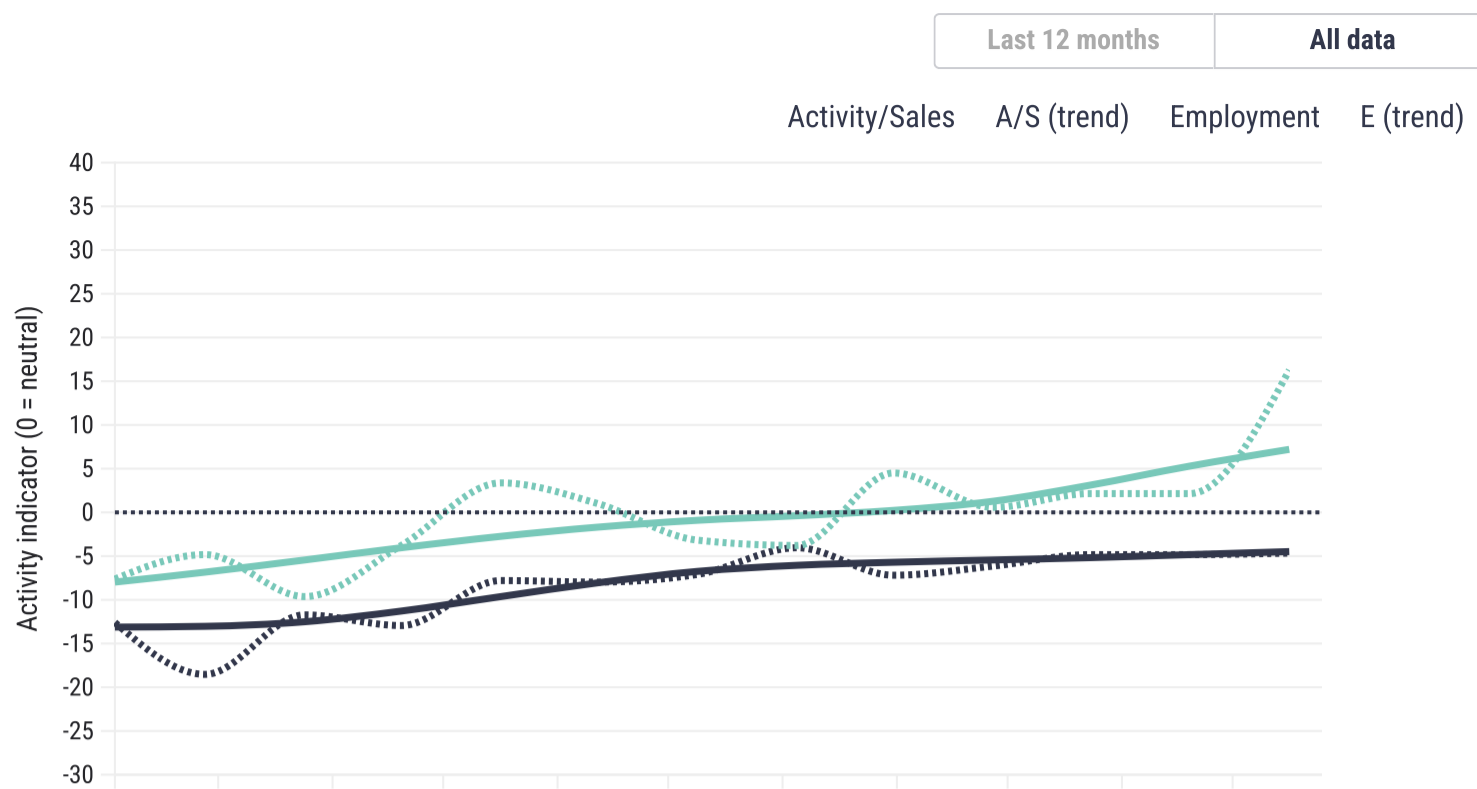
Sales prices **5.3**
▼ 0.9 points

Average wages **35.5**
▼ 3.2 points

Australian Industry Index ®

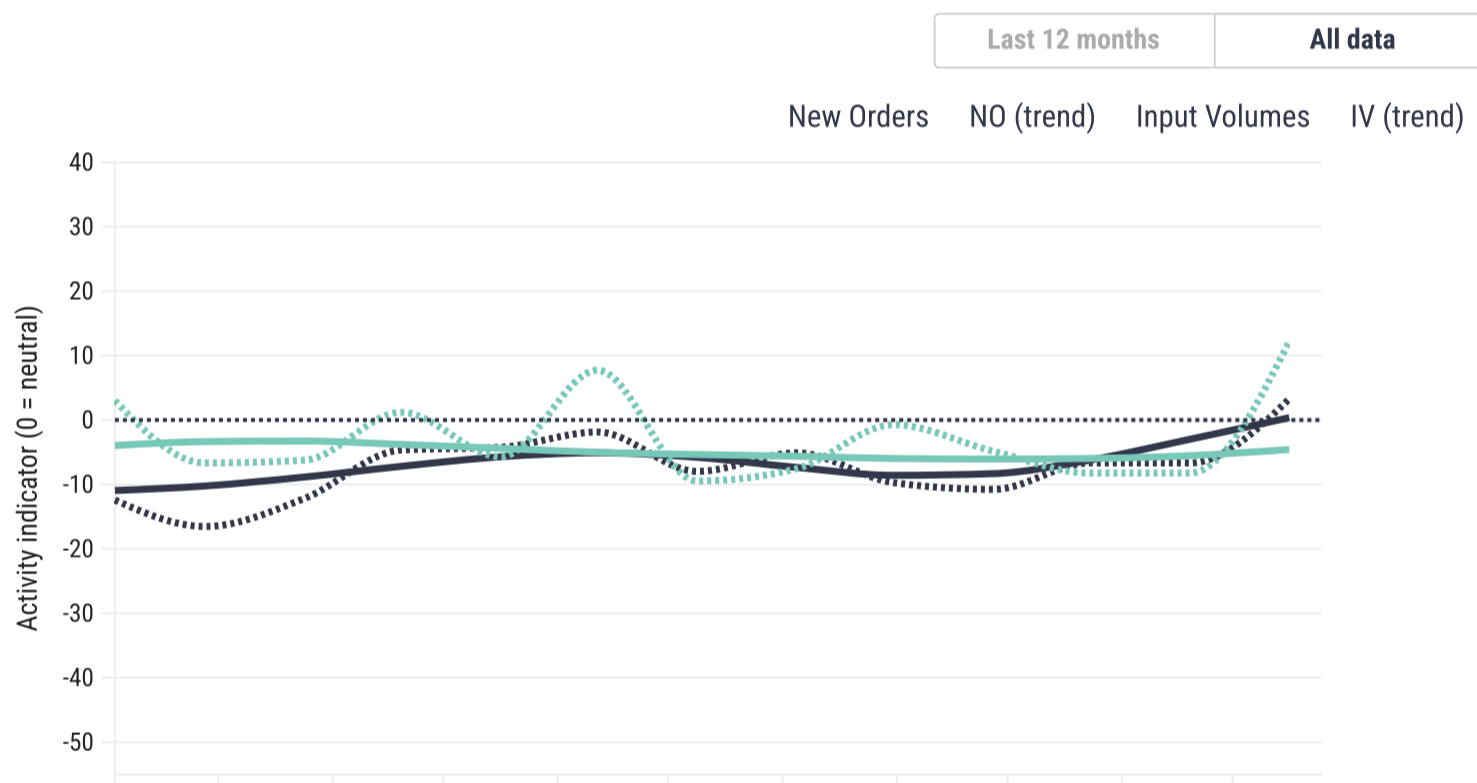


Industry activity



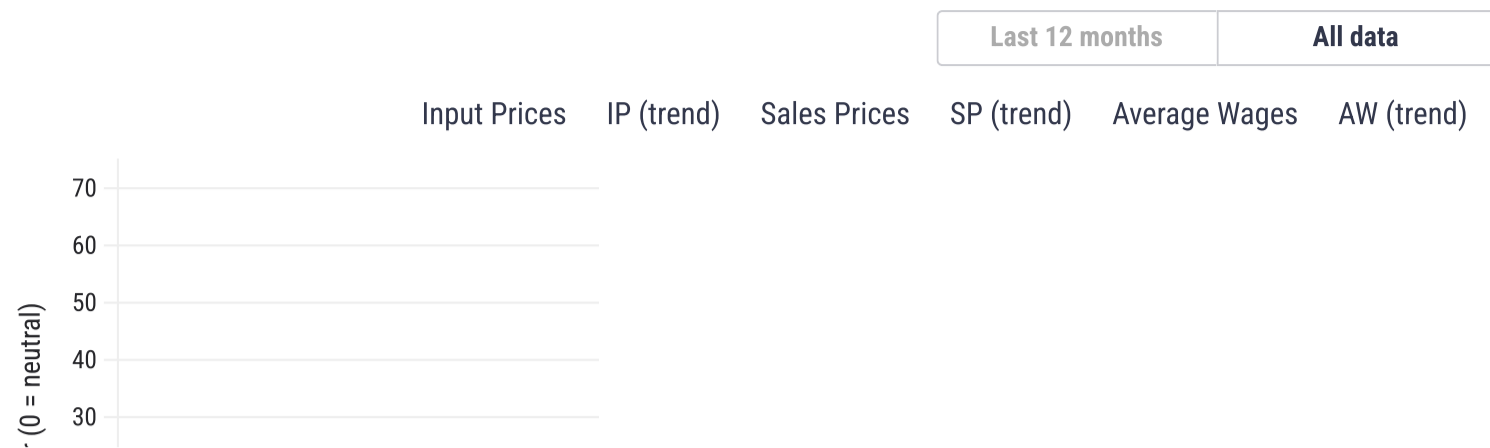
- The industrial activity/sales indicator was stable in February holding at -11.2. Despite remaining in negative territory, the trend shows steady improvement over the past year.
- In February, the employment indicator moved into positive territory for the first time in three years, rising to +12.8. This aligns with the trend data, which has been showing gradual improvement for some time.
- The divergence between employment expansion and continued contraction in activity suggests firms are retaining labour in anticipation of a gradual recovery, rather than responding to current demand conditions.

Leading indicators



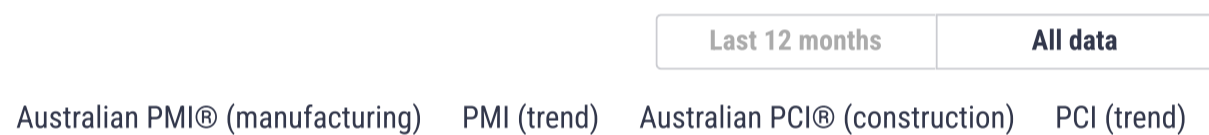
- The new orders indicator rose by 11.4 points to -2.1 in February, remaining in contraction, though trend data show a steady improvement through the early months of 2025.
- Input volumes rose sharply to 8.1 in February, moving back into positive territory. Over the past two years, the indicator has trended downward at a modest pace.
- Rising inputs and new orders points alongside flat activity points to selective restocking and early stage project activity, rather than a broad based demand recovery.

Prices and wages



- The input prices index rose to 43.5, underscoring persistent cost pressures across industry, while sales price index held steady at 5.3.
- The wages indicator remained at a similar expansion rate at 35.5 and has been ranging between 35-40 in trend terms for the past year.
- The widening gap between input and sales prices highlights ongoing margin compression, as firms continue to absorb increases with ability to pass through.
- Wage growth reflects retention pressures and skills scarcity, rather than strong output growth.

Australian PMI® and PCI®



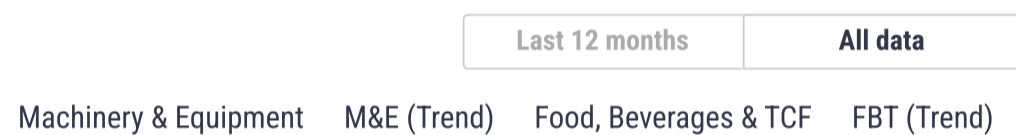
- The Australian PMI® rose to -15.6 in February, with trend data showed gradual signs of improvement.
- The Australian PCI® turned negative in February, reversing the previous month's gain, to fall to -8.2.
- Manufacturers reported cashflow pressure from delays, and intensifying costs from regulation, taxes, wage expectations and energy prices.
- Constructors reported rising tax and regulation burden, maturing and competitive markets, and skills shortages dragged on activity.

Upstream manufacturing



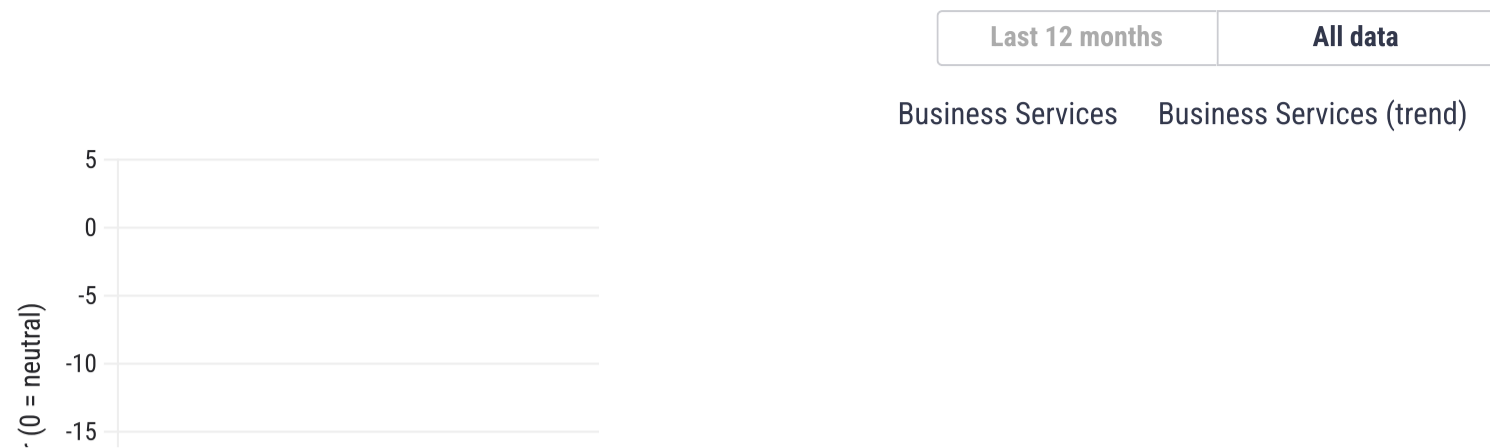
- Upstream manufacturing indicators improved but remained in contraction in February.
- The chemicals sub-index increased by 8.1 points to -27.3, while the minerals and metals sector sustained its previous month's score (-22.6).
- Chemical manufacturers reported weak demand with rising costs and weather-related disruptions, while exports remained steady.
- Metals reported weak demand and cost pressures. Weak capital spending across downstream sectors drove uneven conditions with isolated areas reporting stronger orders.

Downstream manufacturing



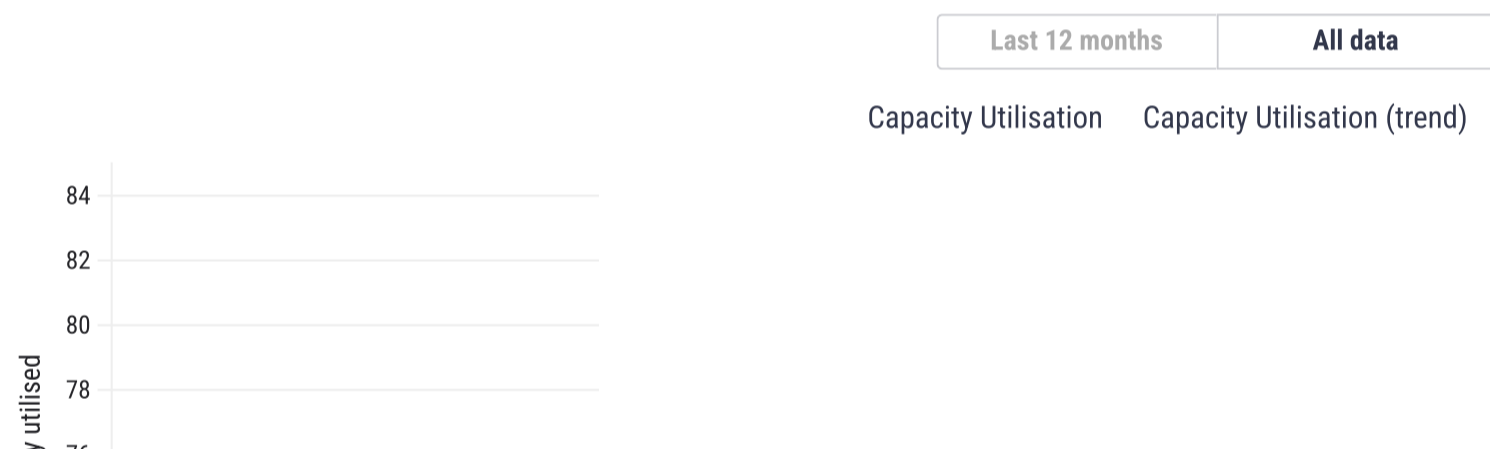
- The machinery & equipment index declined by 1.8 points to -24.2.
- Machinery and equipment manufacturers reported generally soft demand, with regulatory pressures and weak capital spending weighing on activity.
- Food, beverages & TCF eased by 4.2 points, but remained in contraction at -4.6.
- Food and beverages firms reported declining retail and food service sales, alongside tariff concerns, and cash-flow pressures, though promotions and seasonal orders provided some support.

Business services



- Business services rose significantly in February, rising by 12.0 points to neutral for the first time since April 2024.
- This indicator covers utilities, technical services, and supply chain/transport providers.
- Business oriented services were supported by stronger enquiry conversion rates, selective demand uplift and seasonal factors. Improved stock levels suggest improvement in operating conditions.
- Project delays, skills shortages, weather disruptions, rising wage expectations and cautious customer spending continued to constrain broader activity.

Capacity utilisation



- Capacity utilisation in Australian industry edged up slightly to 78.9% in February.
- Since 2024, the utilisation rate has become more volatile, generally fluctuating within the 77-82% range.
- Businesses indicated stronger volumes in new orders contributed to improved utilisation levels.
- Elevated capacity utilisation reflects ongoing supply side constraints rather than strong demand, reinforcing cost pressures and limiting firms' ability to scale output without further investment.

About the Australian Industry Index

The Australian Industry Index is a monthly index that measures changes in activity in Australia's industrial sectors. It provides diffusion indices which measure rates of changes in the level of industrial activity — expansion, stability or contraction. A positive reading indicates the activity is expanding; negative indicates contraction. The distance from 0 indicates the strength of the expansion or decline.

The Australian Industry Index is based on monthly surveys from a national sample of Australian businesses. It uses ANZSIC industry codes for classifying sectors, and weights survey results using ABS data on gross value added by sector. Seasonal adjustment and trend calculations follow ABS methodology. [Read more on our detailed methodology.](#)

© **Australian Industry Group, 2026.** This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable legislation, no part to be reproduced by any without the prior written permission of Australian Industry Group.

Disclaimer: Australian Industry Group provides information services to its members and others, including economic policy and information services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice. Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.

www.australianindustrygroup.com.au/aia **1300 55 66 77**