

July 2019

# Manufacturing PMI rises to three-month high in June

## Key findings

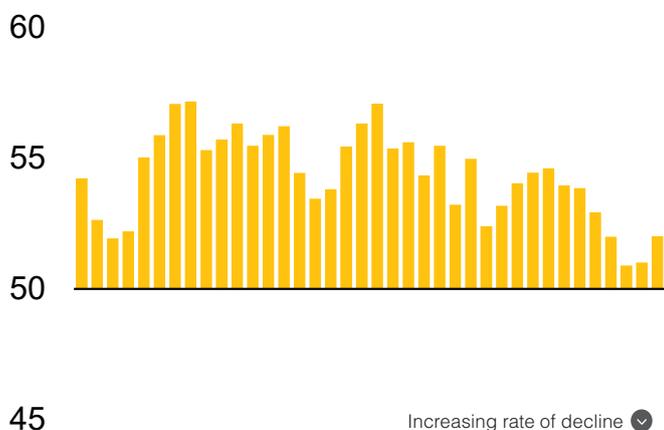
Australia's manufacturing sector finished off the second quarter on a stronger note, according to latest survey data. Faster expansions in both production and new orders lifted the headline index which, in turn, encouraged firms to boost hiring and raise purchasing activity. Supply chains remained under pressure and backlogs accumulated while business confidence headed higher. However, inflationary pressures moderated further.

## Commonwealth Bank Manufacturing PMI<sup>®</sup>

May 2016 – Jun 2019

(50 = no change on previous month)

Increasing rate of growth 



The headline index from the survey, the seasonally adjusted Commonwealth Bank Manufacturing Purchasing Managers' Index™ (PMI<sup>®</sup>) rose from 51.0 in May to 52.0 in June. The latest reading was the highest since March, indicating a modest improvement in the health of the manufacturing sector.

The headline PMI is a single-figure composite indicator derived from questions on output, new orders, employment, input inventories and delivery times, and designed to provide a quick snapshot of the performance of the manufacturing economy.

## Summary

	PMI	Interpretation
Jun-19	52.0	Expansion, faster rate of growth
May-19	51.0	Expansion, faster rate of growth

Demand conditions strengthened midway through the year, as indicated by a faster rise in new orders. Sales growth was largely driven by the domestic market, with survey data showing signs of weakening overseas demand. New export orders fell in June and at the fastest rate in the survey history. Nonetheless, in response to greater overall client demand, production volumes were expanded for a second month running.

Other PMI indicators also pointed to a sustained recovery in the Australian manufacturing sector. Factory jobs rose for the first time since February, while purchasing activity increased for a second successive month. The level of outstanding workloads accumulated in June, marking the first increase for three months. Holdings of input purchases also returned to growth, albeit marginally. Business expectations about output improved, with around half of the respondents anticipating higher production in the year ahead.

The average time taken for vendors to deliver inputs to Australian factories continued to lengthen. Pressure on supply chains stemmed from a combination of higher sales and a lack of certain raw materials, such as steel and food items, according to anecdotal evidence.

Inflation continued to moderate in June. Input costs rose at the slowest rate since August 2017, while output charges were raised at the softest pace for 20 months. A weaker exchange rate, supply shortages, higher commodity prices and increased suppliers' fees were all reasons cited for inflation.

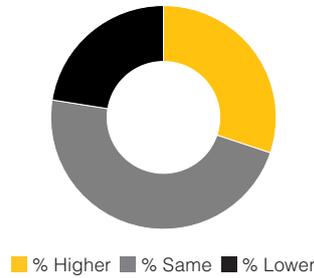
## Index Reports

### Output Index

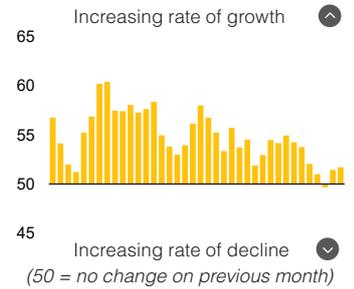
Q. Please compare your production/output this month with the situation one month ago.

Production rose for a second month running during June, as highlighted by the seasonally adjusted Output Index posting above the no-change 50.0 level. The rate of growth accelerated to a four-month high, although was only modest overall. The upturn in production was often linked to solid inflows of new orders and greater operation capacity.

**% breakdown for June**



**May 2016 – Jun 2019**

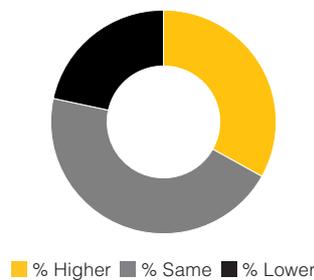


### New Orders Index

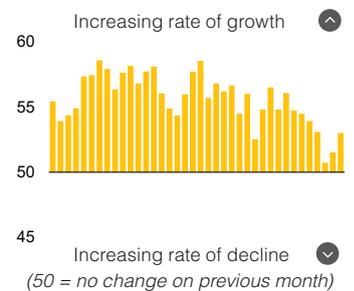
Q. Please compare the state of your new orders (in units) this month with one month ago.

Factory order book growth in Australia picked up to a three-month high in June. The latest increase in sales maintained the unbroken run of expansion since the survey began in May 2016. Among the 33% of firms that reported greater sales, there were mentions of greater client demand, improved post-election sentiment and government stimulus spending. Growth was driven by higher sales for intermediate goods.

**% breakdown for June**



**May 2016 – Jun 2019**

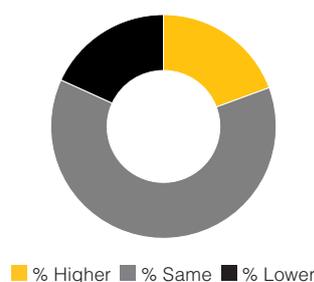


### New Export Orders Index

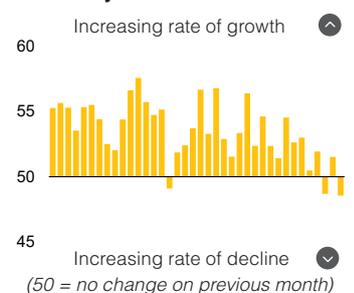
Q. Please compare the state of your new export orders (in units) this month with one month ago.

Survey data indicated a contraction in new export sales at the end of the second quarter. This was reflected by the respective seasonally adjusted index scoring below the neutral 50.0 threshold. While modest, the pace of decline was the fastest in the survey history. The downturn was broad-based across all three monitored categories, with notably steeper declines seen at consumer and intermediate goods producers.

**% breakdown for June**



**May 2016 – Jun 2019**

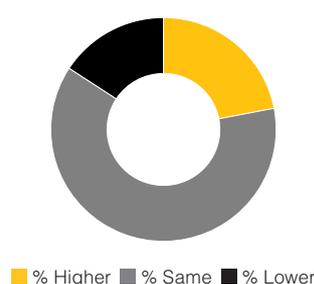


### Backlogs of Work Index

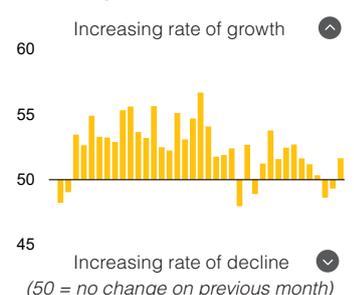
Q. Please compare the level of outstanding business in your company this month with one month ago.

Following two months of depletion, the level of unfinished workloads in the Australia manufacturing sector rose in June, in tandem with a faster rise in new business. The rate of accumulation was the quickest since January, albeit modest overall. Higher sales, capacity constraints, production delays due to material shortages, as well as payment delays were all reasons cited for increased backlogs.

**% breakdown for June**



**May 2016 – Jun 2019**

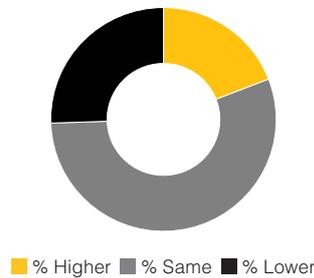


## Index Reports

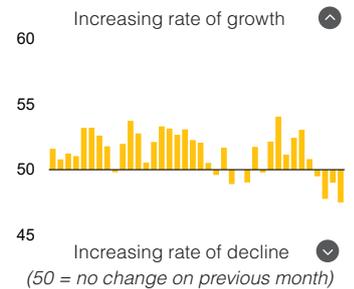
### Stocks of Finished Goods Index Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

Amid reports of increased sales growth, holdings of finished goods in Australia declined further in June. This marked the fourth consecutive month of depletion. Furthermore, the rate of decrease was the steepest on record. Some firms also mentioned efforts to maintain lean inventories as well as quicker delivery due to increased operating capacity.

**% breakdown for June**



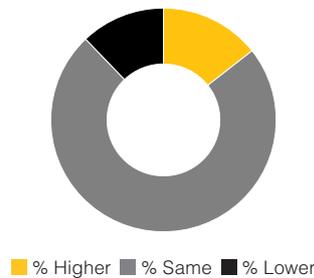
**May 2016 – Jun 2019**



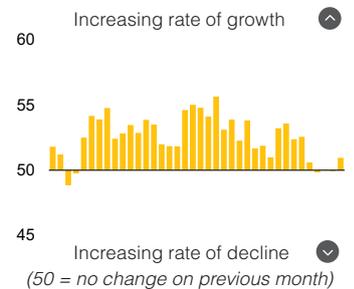
### Employment Index Q. Please compare the level of employment at your unit this month with the situation one month ago.

Factory employment rose for the first time in four months during June, as indicated by the seasonally adjusted Employment Index registering above the no-change level of 50.0. The rate of job creation, however, was slight. The latest increase was led by greater hiring at capital goods producers, followed by consumer goods makers. Firms that took on extra workers generally commented on increased production requirements and higher sales.

**% breakdown for June**



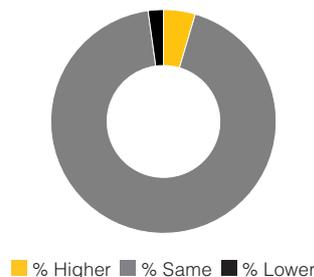
**May 2016 – Jun 2019**



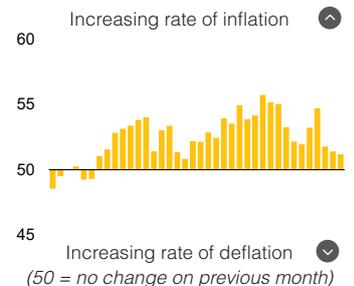
### Output Prices Index Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

Although firms raised output prices further as the second quarter concluded, the rate of increase was the slowest for 20 months and mild overall. Indeed, only 5% of panellists reported increasing selling prices, while an overwhelming majority (93%) signalled no change since May. The pass-through of higher costs to clients was the main reason cited for increased charges.

**% breakdown for June**



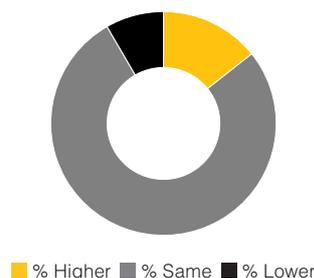
**May 2016 – Jun 2019**



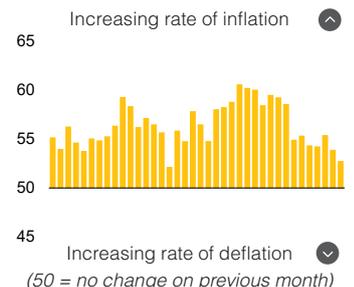
### Input Prices Index Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

June data pointed to a further increase in factory gate prices in Australia. However, inflation moderated to the weakest since August 2017, albeit still solid overall. A combination of factors was cited for higher cost burdens, including a weaker exchange rate, supply shortages, higher commodity prices and increased suppliers' fees.

**% breakdown for June**



**May 2016 – Jun 2019**



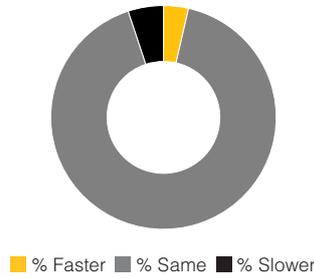
## Index Reports

### Suppliers' Delivery Times Index

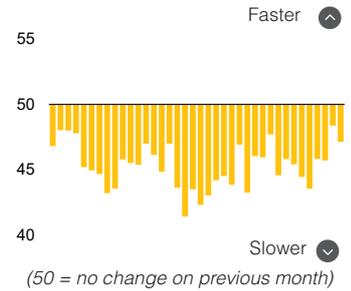
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

The end of the second quarter continued to see longer suppliers' delivery times faced by Australia factories, as highlighted by the respective seasonally adjusted index remaining below the 50.0 no-change level. Vendor performance deteriorated solidly, with respondents commonly mentioning greater demand and a lack of certain materials such as steel and food items as reasons for delivery delays.

**% breakdown for June**



**May 2016 – Jun 2019**

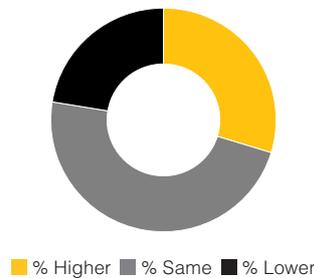


### Quantity of Purchases Index

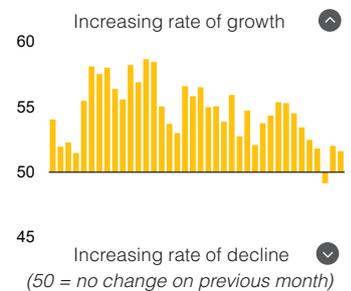
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

Input purchasing increased for a second straight month in June, in line with greater output and sales growth. The rate of expansion was modest and eased from May. According to anecdotal evidence, increased production needs and higher sales forecasts were factors behind greater purchasing activity.

**% breakdown for June**



**May 2016 – Jun 2019**

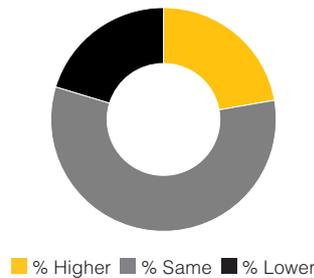


### Stocks of Purchases Index

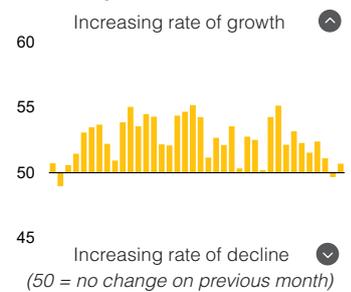
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

June saw a rise in input inventories following a marginal decline in May, as indicated by the respective seasonally adjusted Index posting above the neutral 50.0 mark. Efforts to build-up stocks were commonly cited as a reason for the rise. However, the rate of accumulation was mild. Further declines were recorded among consumer and intermediate goods makers while a solid increase was noted in the capital goods category.

**% breakdown for June**



**May 2016 – Jun 2019**

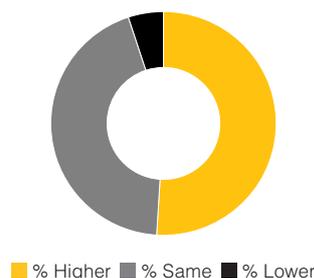


### Future Output Index

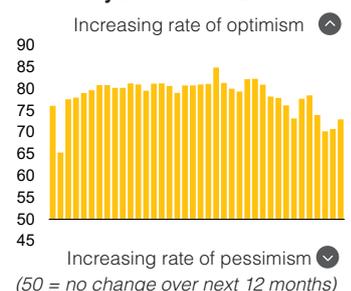
Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

Just over half of Australian manufacturers anticipated higher output in the year ahead during June. Planned capacity investment, increased sales efforts and the launch of new products were all cited as reasons to be optimistic. Sentiment strengthened in June, as indicated by the Future Output Index rising to a three-month high. There were some concerns, however, about the slowdown seen in the housing market.

**% breakdown for June**



**May 2016 – Jun 2019**



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**About Commonwealth Bank Manufacturing PMI® and the Purchasing Managers' Index™ Report**

The Commonwealth Bank has commissioned IHS Markit to conduct research and provide insights for this edition of the Commonwealth Bank Manufacturing PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector manufacturing firms in Australia. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following nine broad categories: Food & Drink, Textiles & Clothing, Wood & Paper, Chemicals, Plastics & Rubber, Metals & Metal Products, Electronic & Electrical Equipment, Machinery & Equipment, Transport Equipment and Other Manufacturing.

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