

August 2019

Manufacturing growth eases at start of third quarter

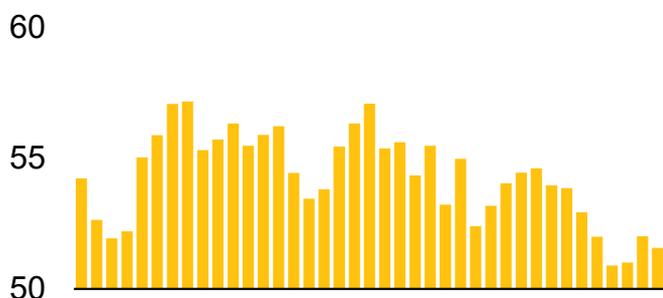
Key findings

Australia's manufacturing sector started the third quarter on a softer note, with the latest survey data indicating a moderation in growth. Expansions in both output and new orders eased in July, while firms cut back on stock-building. However, business sentiment remained positive. Meanwhile, cost inflation intensified on the back of a weaker exchange rate, pushing firms to raise selling prices further.

Commonwealth Bank Manufacturing PMI® May 2016 – Jul 2019

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

The headline index from the survey, the seasonally adjusted Commonwealth Bank Manufacturing Purchasing Managers' Index™ (PMI®) edged down to 51.6 in July, from 52.0 in June. The latest reading was below the average seen over the first half of the year, indicating only 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
Jul-19	51.6	Expansion, slower rate of growth
Jun-19	52.0	Expansion, faster rate of growth

Signs of weakening demand conditions emerged in July as indicated by a slower rise in overall new orders. A further decline in new export sales also weighed on overall sales growth. Anecdotal evidence pointed to subdued client demand as a key factor behind the modest rise in overall order books.

Slower inflows of new business led to the development of spare capacity as signalled by a renewed fall in the level of unfinished business during July. Falling backlogs have now been recorded in three of the past four months.

Meanwhile, purchasing activity rose at the weakest rate in the survey history during July, with the exception of a decline seen in April. This, in turn, led to a fall in stocks of purchases, which was the steepest since the survey began in May 2016. Respondents mentioned efforts to reduce stock-holdings and improve cash flows as factors behind lower inventories. Meanwhile, holdings of finished goods fell for a fifth consecutive month in July.

Supply chains remained under pressure at the start of the third quarter, with anecdotal evidence suggesting that a lack of raw materials, such as steel, chemicals and food items, alongside shipping delays contributed to longer delivery times.

Inflation meanwhile intensified in July, partially lifted by a weaker exchange rate. Input costs rose at the fastest rate for three months, prompting firms to raise output charges at a quicker pace. Higher commodity prices and increased suppliers' fees were also reasons cited for higher input prices.

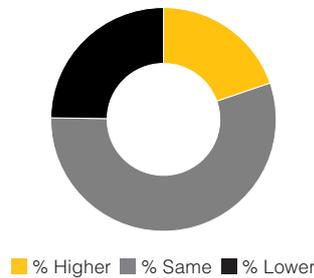
Index Reports

Output Index

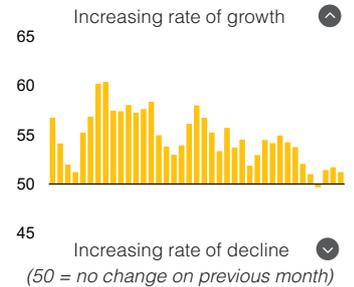
Q. Please compare your production/output this month with the situation one month ago.

July saw a further rise in output at Australian goods producers, extending the current sequence of growth to three months. Firms generally attributed higher production volumes to greater new order inflows, though there were also reports of efforts to reduce input inventories. However, the rate of increase remained modest, running at a pace below the historical average.

% breakdown for July



May 2016 – Jul 2019

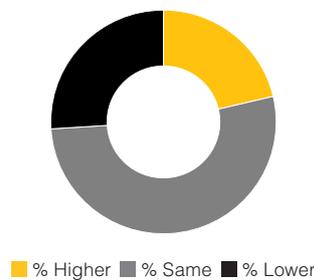


New Orders Index

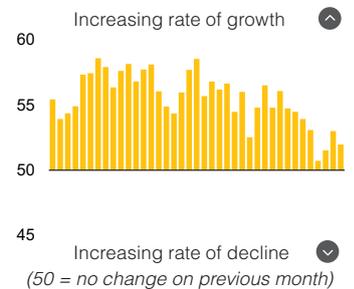
Q. Please compare the state of your new orders (in units) this month with one month ago.

New orders received by Australian manufacturers continued to increase at the start of the third quarter, as has been the case in each month since the survey began in May 2016. New contract wins, post election stability and greater client demand were reasons cited by panel members for higher sales. However, the pace of growth eased from June and was modest overall.

% breakdown for July



May 2016 – Jul 2019

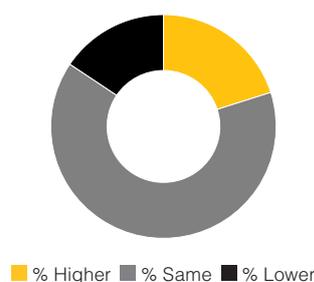


New Export Orders Index

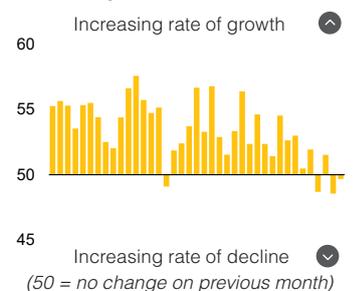
Q. Please compare the state of your new export orders (in units) this month with one month ago.

Survey data indicated a second monthly decline in new export sales during July. However, the rate of contraction slowed from June and was marginal overall. Anecdotal evidence suggested that weaker demand across external markets, such as China, and rising stocks at overseas clients contributed to lower export sales. Declines in consumer and intermediate products were reported while a rise in foreign sales of capital goods was seen.

% breakdown for July



May 2016 – Jul 2019

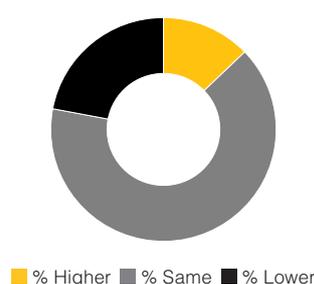


Backlogs of Work Index

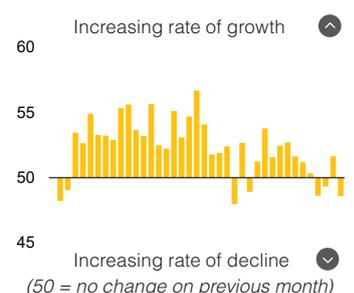
Q. Please compare the level of outstanding business in your company this month with one month ago.

The level of unfinished workloads in the Australia manufacturing sector fell in July. This was indicated by the respective seasonally adjusted index posting below the neutral 50.0 threshold. While modest, the rate of decline was the fastest for three months. Backlogs of work have fallen in three of the past four months. A combination of reasons was cited for falling workloads, including modest demand growth and improved productivity.

% breakdown for July



May 2016 – Jul 2019

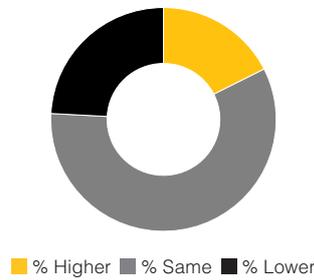


Index Reports

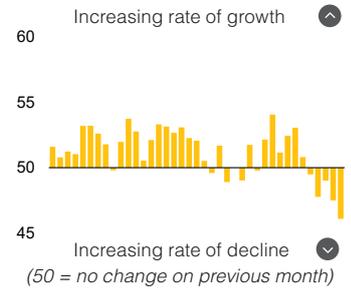
Stocks of Finished Goods Index Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

Australian factories reported a fifth successive month of contraction in stocks of finished goods in July, as indicated by the respective seasonally adjusted index remaining below the no-change level of 50.0. Furthermore, the rate of decline accelerated to the fastest in the survey history. The depletion was often linked to firms' efforts to reduce stock-holdings amid subdued growth in new business.

% breakdown for July



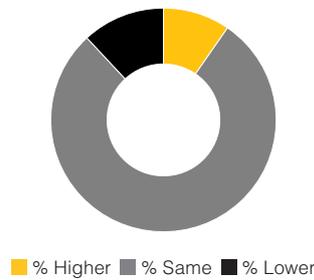
May 2016 – Jul 2019



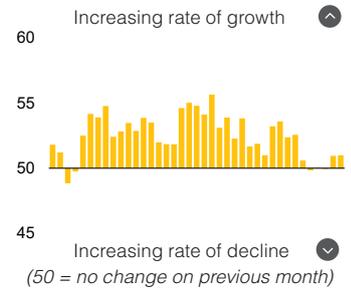
Employment Index Q. Please compare the level of employment at your unit this month with the situation one month ago.

Jobs growth in Australia's manufacturing sector was reported for a second month running in July, with the rate of increase the same as in June, which was mild overall. There was evidence that increased staff numbers reflected higher operating needs and sales wins. The latest increase in employment was led by greater hiring at capital goods producers, followed by consumer goods makers.

% breakdown for July



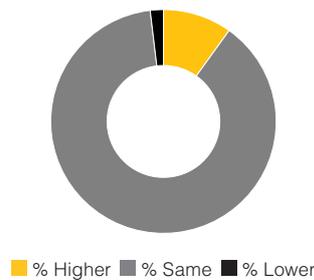
May 2016 – Jul 2019



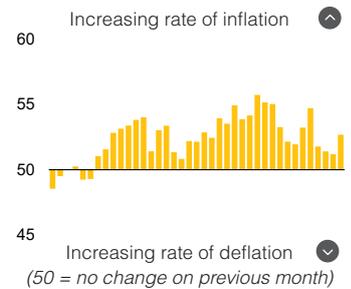
Output Prices Index Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

Amid greater cost inflation, Australian manufacturers raised their factory gate prices further as the third quarter began. Moreover, the rate of increase accelerated to a four-month high and was solid overall. Survey respondents noted higher costs of raw materials, such as paper, plastics and steel, as well as efforts to preserve margins as reasons for increased charges.

% breakdown for July



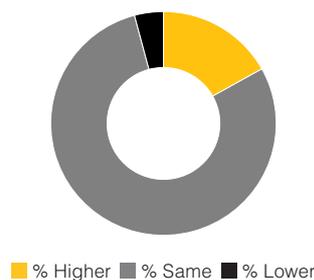
May 2016 – Jul 2019



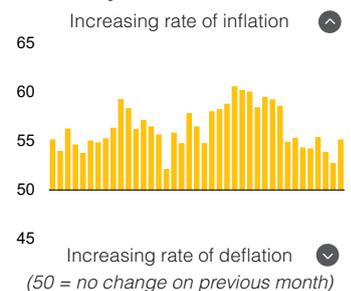
Input Prices Index Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

July data indicated a further increase in average cost burdens among Australian factories, continuing a trend of growth that is apparent since the start of the survey. Anecdotal evidence highlighted increased suppliers' fees, higher input costs and a relatively weaker exchange rate as factors behind greater business expenses. Moreover, inflation accelerated to a three-month high and was marked overall.

% breakdown for July



May 2016 – Jul 2019



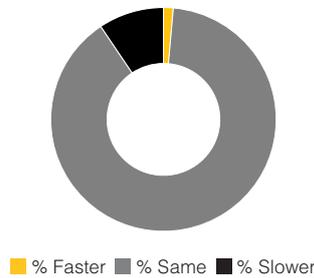
Index Reports

Suppliers' Delivery Times Index

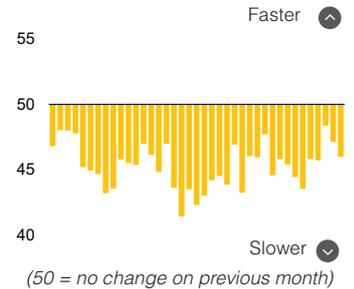
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

Supply chains were strained further at the beginning of the third quarter, with longer delivery times reported in July. Moreover, the pace of deterioration in vendor performance quickened to the fastest for three months and was solid overall. A combination of factors contributed to longer average lead times, including a lack of input materials (such as machinery parts, transport equipment, chemicals and food products) plus shipping and port delays.

% breakdown for July



May 2016 – Jul 2019

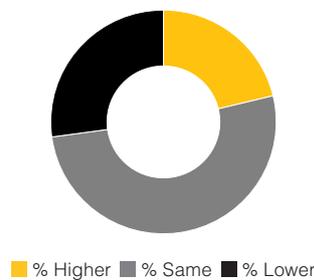


Quantity of Purchases Index

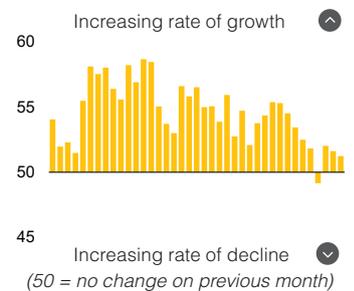
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

Australian manufacturing firms raised their purchasing activity in July, but the rate of buying moderated further and was modest overall. While input purchases were commonly connected to re-stocking efforts, firms that reported lower buying activity pointed to subdued demand growth, sufficient inventories and efforts to reduce working capital.

% breakdown for July



May 2016 – Jul 2019

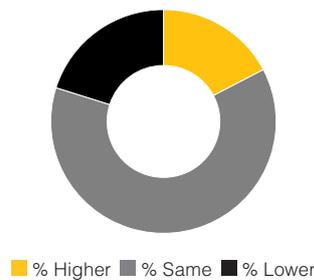


Stocks of Purchases Index

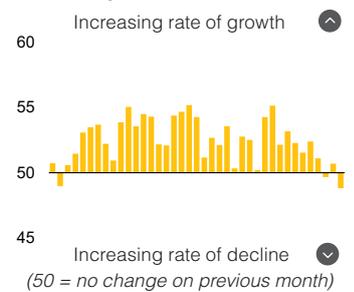
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

For the third time in the survey history, a decline in the holdings of input stocks was reported in July. Moreover, the rate of depletion was the steepest on record. Efforts to maintain a lean inventory and to improve cash flows were reasons cited by respondents for reduced stocks. Further declines were recorded among consumer and intermediate goods makers while a slower rise was noted in the capital goods category.

% breakdown for July



May 2016 – Jul 2019

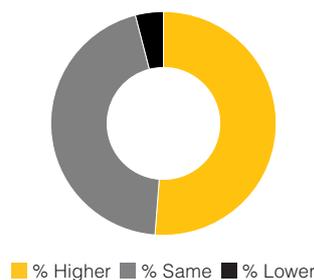


Future Output Index

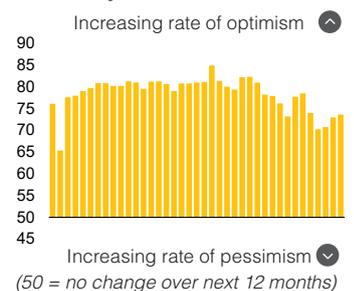
Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

Sentiment towards the business outlook in the year ahead improved further in July, with the Future Output Index rising to a four-month high. The majority of panel members (51%) anticipated higher production volumes over the next 12 months, with optimism driven by higher sales projections, new marketing activities and planned product expansions.

% breakdown for July



May 2016 – Jul 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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