

April 2019

# Manufacturing PMI falls to 32-month low.

## Key findings

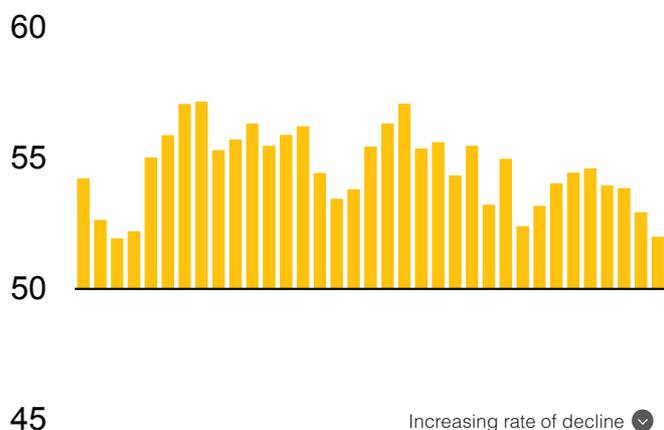
Australia's manufacturing sector ended the first quarter on a positive note, but growth was the softest seen since July 2016. A slower expansion in output and lower employment weighed on the headline index. Backlog accumulation was marginal while the rise in purchasing activity was modest. Meanwhile, inflationary pressure persisted, with solid increases seen in both input prices and output charges. Business confidence remained positive.

## Commonwealth Bank Manufacturing PMI®

May 2016 – Mar 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®) eased to 52.0 in March, down from 52.9 in February. The latest reading was the lowest for 32 months, 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
Mar-19	52.0	Expansion, slower rate of growth
Feb-19	52.9	Expansion, slower rate of growth

Output growth was the weakest recorded in the near three-year survey history during March. While new order intakes rose solidly, the pace of expansion also eased to an eight-month low. Growth in new export orders accelerated but remained below its historical average.

Softer demand conditions saw backlogs accumulate at the slowest rate in its current eight-month sequence of growth. Net manufacturing employment also decreased for the first time since August 2016, albeit marginally.

Production was reportedly affected again by a lack of input materials. Supply chains remained under pressure, with anecdotal evidence pointing to raw material shortages, which is partially due to drought-related disruptions, as the key reason for delivery delays.

Tight supply also contributed to higher prices. Input cost inflation was solid, while firms raised output charges at the fastest pace in five months. Price hikes from distributors and greater costs for commodities such as wool, vegetables and fuel were commonly mentioned as reasons for inflation.

Meanwhile, goods producers raised purchasing activity, but the rate of increase was the weakest for just over two-and-a-half years. Increased input purchases contributed to a build-up in stocks of purchases.

Finally, business confidence remained positive in March, despite the Future Output Index moving down to one of its lowest levels in the survey history.

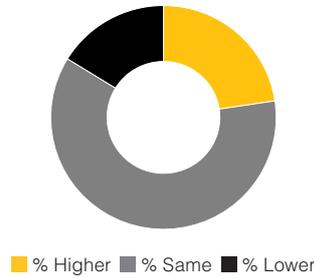
## Index Reports

### Output Index

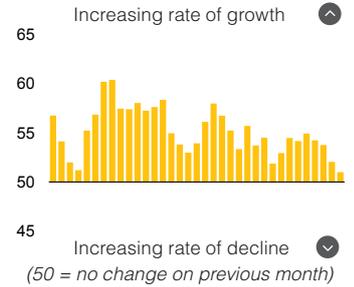
Q. Please compare your production/output this month with the situation one month ago.

Output in Australia's manufacturing sector rose at the end of the first quarter, as reflected by the seasonally adjusted Output Index coming in above the neutral 50.0 level. However, the rate of expansion was the slowest in the near three-year survey history and marginal overall. Increased orders were the key reason for higher production, although there were some reports of staffing issues weighing on output.

**% breakdown for March**



**May 2016 – Mar 2019**

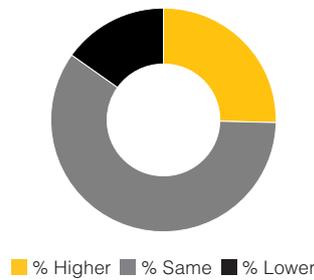


### New Orders Index

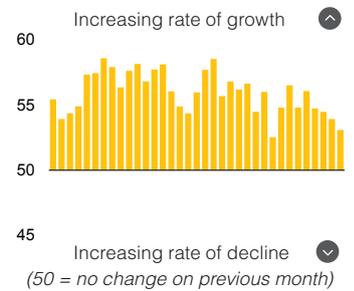
Q. Please compare the state of your new orders (in units) this month with one month ago.

New business received at Australian goods producers rose further during March, extending the sequence of expansion that has been evident since the survey started on May 2016. While the weakest for eight months, the rate of growth remained solid overall. According to anecdotal evidence, greater client demand and marketing activities boosted sales. There were also some mentions of slowing economic activity.

**% breakdown for March**



**May 2016 – Mar 2019**

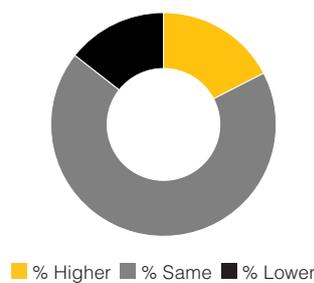


### New Export Orders Index

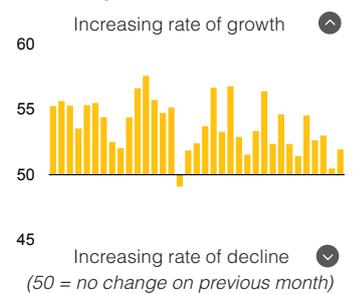
Q. Please compare the state of your new export orders (in units) this month with one month ago.

International demand for Australian manufactured goods continued to increase in March, as indicated by the seasonally adjusted New Export Orders Index registering above the neutral 50.0 threshold for a nineteenth straight month. The pace of increase accelerated from February, but was modest overall. Some firms highlighted that better export pricing bolstered overseas orders.

**% breakdown for March**



**May 2016 – Mar 2019**

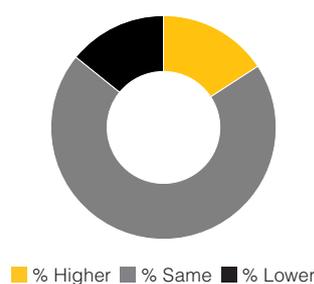


### Backlogs of Work Index

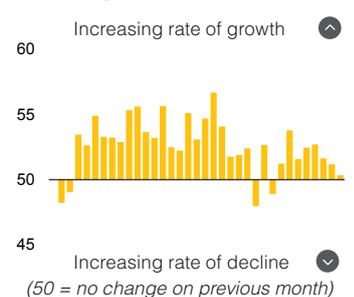
Q. Please compare the level of outstanding business in your company this month with one month ago.

The level of outstanding business rose for an eighth consecutive month at the end of the first quarter, consistent with increased orders. However, the rate of expansion was the weakest in the current sequence and only marginal. The majority of panellists (70%) reported unchanged levels of backlogs. There was evidence that lower staff numbers and delayed input deliveries contributed to higher backlogs.

**% breakdown for March**



**May 2016 – Mar 2019**

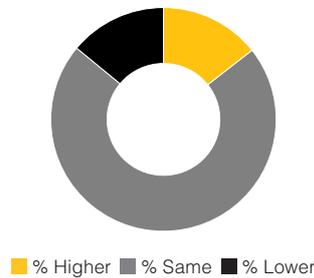


## Index Reports

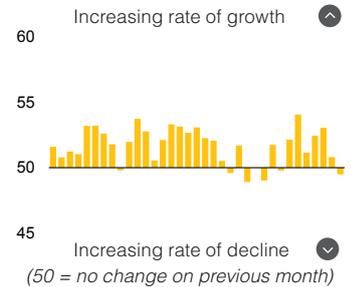
### Stocks of Finished Goods Index Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

For the first time since August last year, inventories of final products declined during March, as reflected by the seasonally adjusted Stocks of Finished Goods Index registering below the no-change level of 50.0. That said, the pace of decrease was marginal overall. Firms that reported lower stocks often attributed prompt order fulfilment as a reason for the depletion.

**% breakdown for March**



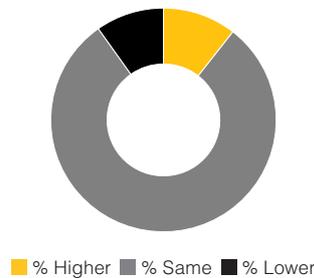
**May 2016 – Mar 2019**



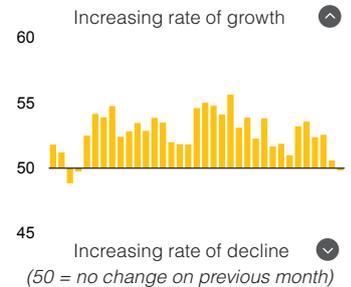
### Employment Index Q. Please compare the level of employment at your unit this month with the situation one month ago.

Australia's manufacturing economy indicated a net decrease in employment as the first quarter concluded, the first decline seen for just over two-and-a-half years. The rate of decrease was however marginal. A large majority of respondents reported no changes to staff numbers from the previous month. Where there was a fall, firms commented on corporate restructuring, slower economic conditions and voluntary leavers.

**% breakdown for March**



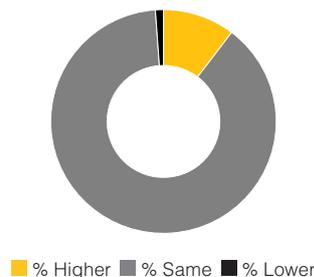
**May 2016 – Mar 2019**



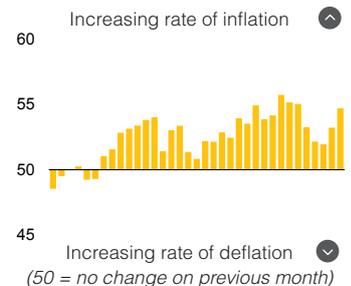
### Output Prices Index Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

In tandem with higher cost burdens, prices charged for Australian goods rose again during March, as has been the case in each month since November 2016. Furthermore, inflation quickened to a five-month high and was solid overall. Survey participants frequently linked higher charges to greater commodity prices.

**% breakdown for March**



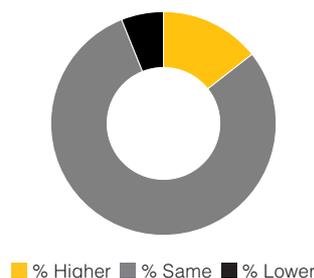
**May 2016 – Mar 2019**



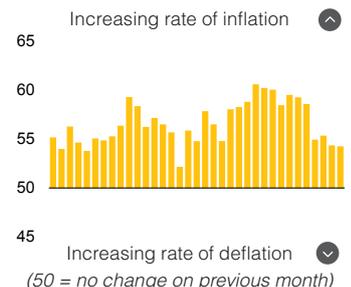
### Input Prices Index Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

Cost increases were reported as the first quarter came to a close, maintaining the unbroken run of inflation since the survey began in May 2016. The rate of increase was near to that seen in February and solid overall. Factors that pushed business costs higher included increased prices for raw materials such as wool, fuel, vegetables, plus price hikes from distributors.

**% breakdown for March**



**May 2016 – Mar 2019**



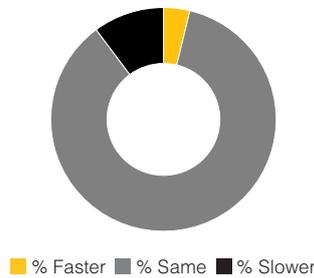
## Index Reports

### Suppliers' Delivery Times Index

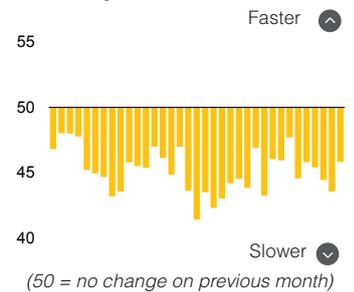
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

The delivery performance of distributors continued to deteriorate during March, as indicated by the respective index coming in below the neutral 50.0 level. In the near three-year survey history, there has not been an improvement in average lead times. A combination of reasons was cited for longer delivery times, including weather-related disruptions, import delays from China and material shortages,

**% breakdown for March**



**May 2016 – Mar 2019**

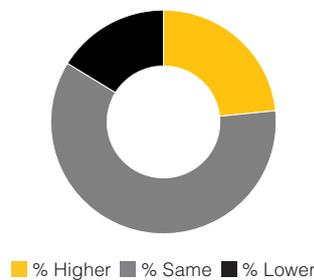


### Quantity of Purchases Index

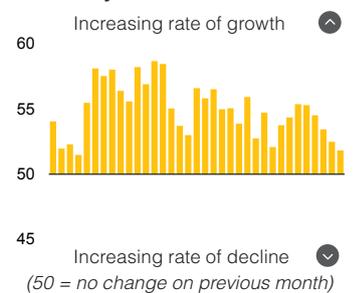
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

March saw Australian factories stepping up their acquisition of raw materials and semi-manufactured goods. However, the rate of input purchases was modest and the softest seen in just over two-and-a-half years. Greater purchasing activity was generally connected to increased new work inflows and efforts to replenish input inventories.

**% breakdown for March**



**May 2016 – Mar 2019**

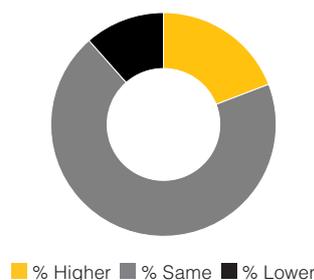


### Stocks of Purchases Index

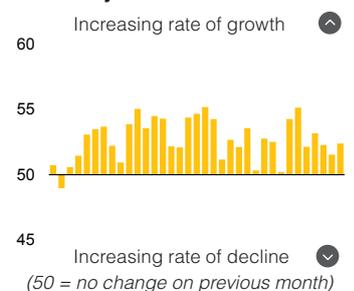
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

More firms reported an increase than a decrease in input inventories at the end of the opening quarter, which saw the seasonally adjusted Stocks of Purchases Index registering above the 50.0 neutral mark for a thirty-third successive month during March. Moreover, the rate of accumulation picked up to a three-month high, although was still modest overall. Increased production requirements were a key reason for higher stocks.

**% breakdown for March**



**May 2016 – Mar 2019**

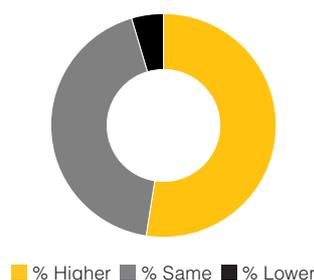


### Future Output Index

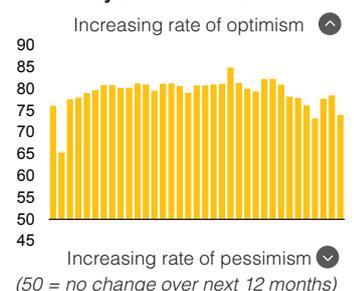
Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

Business confidence among Australian manufacturers remained upbeat in March, with the Future Output Index coming in well above the neutral level of 50.0. The majority of respondents (53%) expect higher output over the next 12 months. Reasons for optimism included higher sales projections, planned product line expansions and greater marketing activity.

**% breakdown for March**



**May 2016 – Mar 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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