August 2020

Manufacturing recovery gains pace in July

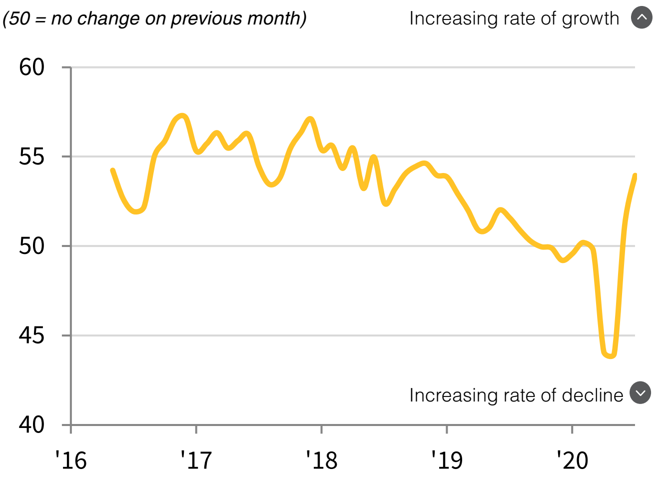
Key findings

The recovery in the Australian manufacturing sector gathered pace in July, according to the latest PMI data, with output and new orders both returning to growth. Survey data also showed that firms stepped up their purchasing activity and business confidence remained positive. However, employment continued to be reduced despite a rise in backlogs of work. Prices meanwhile signalled weakened inflationary pressures, with input prices and output charges increasing at slower rates.

Commonwealth Bank Manufacturing PMI®

May 2016 – Jul 2020

(50 = no change on previous month)



The headline index from the survey, the seasonally adjusted Commonwealth Bank Manufacturing *Purchasing Managers' Index™ (PMI®)* rose from 51.2 in June to 54.0 in July, its highest reading since December 2018. The latest figure indicated a further improvement in the health of the sector.

The headline PMI is calculated from a weighted average of output, new orders, employment, input inventories and delivery times. Readings below 50.0 signal a deterioration in business conditions on the previous month while readings above 50.0 show improvement.

Summary

	PMI	Interpretation
Jul-20	54.0	Expansion, faster rate of growth
Jun-20	51.2	Expansion, change of direction

Driving the upturn were businesses returning to work as the economy gradually reopened. Production volumes rose for the first time in nearly a year during July and at a pace not seen since November 2018. Producers of investment goods reported a particularly strong increase in output.

Survey data also showed demand improving sharply. Total new orders rose for the first time in ten months during July, with the rate of increase the strongest since February 2019. The improvement in demand was fuelled by the domestic market as external demand continued to deteriorate. Export sales fell for a sixth straight month. Business expectations remained positive as firms look towards the economy returning to normality in the coming months. Policy stimulus and increased infrastructure work were also factors behind the optimism.

In response to increased production demand, firms raised their purchasing activity in July, which ended a seven-month period of decline. Consequently, input stocks stabilised, following a year of depletion. Inventories of finished goods fell further despite higher output, with some firms commenting on the fulfilment of orders.

Amid higher sales, backlogs of work rose for the first time in just over a year, indicating some capacity pressure. However, job shedding persisted in July, albeit at a slower pace. Anecdotal evidence suggested redundancies at some firms.

Finally, inflationary pressures weakened in July. Input prices rose at a noticeably slower pace while output charges were only marginally increased.

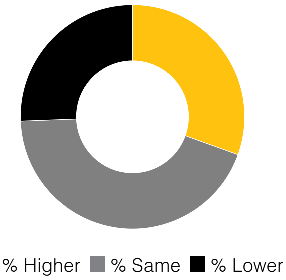
Index Reports

Output Index

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

July data pointed to the first rise in production in the Australian manufacturing sector since August 2019. This was indicated by the respective seasonally adjusted index posting above the no-change 50.0 level. Furthermore, the rate of increase was the highest for 20 months and solid overall. Respondents generally mentioned the favourable impact of the gradual reopening of the economy on output.

% breakdown for July



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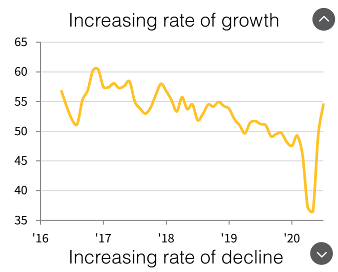


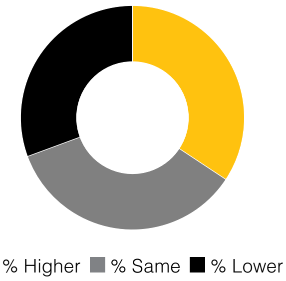
(50 = no change on previous month)

New Orders Index

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

Demand for Australian goods increased in July, marking the first expansion in order book volumes since September 2019. This was highlighted by the seasonally adjusted New Orders Index rising above the neutral 50.0 level. Moreover, the rate of growth was solid and the fastest for nearly one-and-a-half years. Higher sales were primarily linked to business reopening.

% breakdown for July



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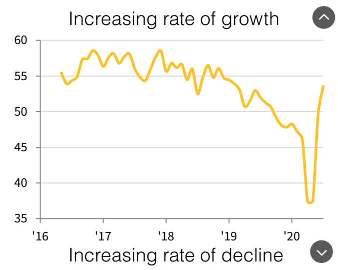


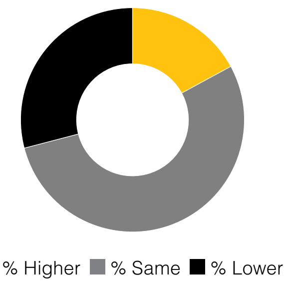
(50 = no change on previous month)

New Export Orders Index

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

Foreign sales of Australian manufactured products continued to decrease at the start of the third quarter, marking a sixth consecutive month of export decline. The rate of contraction quickened since June and was sharp overall, though not as severe as in April and May. The latest decline continued to reflect weak demand across international markets.

% breakdown for July



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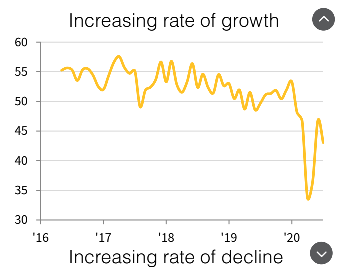


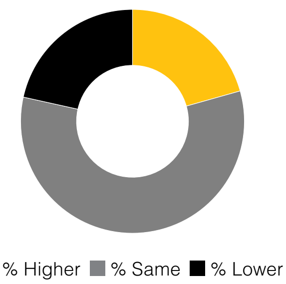
(50 = no change on previous month)

Backlogs of Work Index

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

Respondents highlighted that increased sales had led to capacity pressure in July, which contributed to the first rise in the level of unfinished work since June 2019. This was reflected by the respective seasonally adjusted index scoring above the no-change 50.0 level. However, the rate of accumulation was modest.

% breakdown for July



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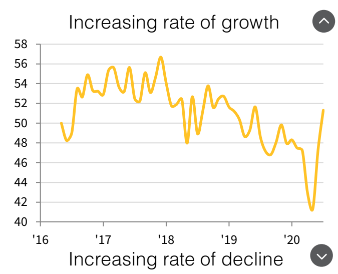


(50 = no change on previous month)

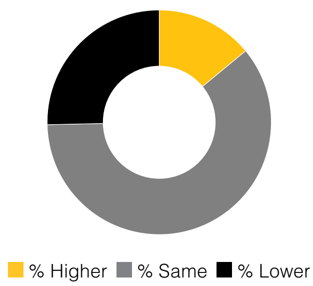
Index Reports

Stocks of Finished Goods Index

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

Survey data highlighted a further fall in finished goods inventories during July, stretching the current sequence of depletion to six months. The rate of decline quickened from June and was marked overall. Respondents generally attributed lower stockholdings to increased sales although, in some cases, efforts to avoid keeping excess inventories were mentioned.

% breakdown for July



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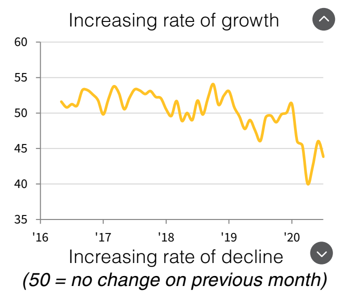
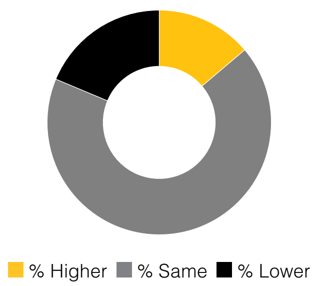


Employment Index

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

Australian goods producers continued to reduce their staffing numbers in July, as indicated by the seasonally adjusted Employment Index dropping below the neutral 50.0 level. The rate of decline was the slowest for five months, however. The survey showed reports of layoffs and non-replacement of leavers. Where growth was recorded, firms pointed to increased orders.

% breakdown for July



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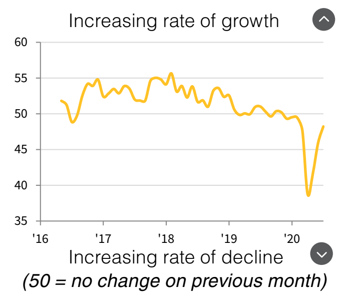
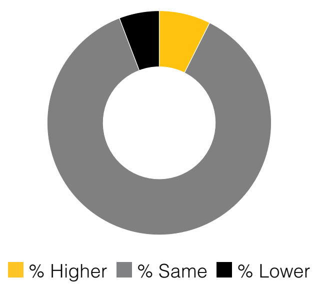


Output Prices Index

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

July data showed that prices charged for Australian manufactured goods increased for a second consecutive month. However, the rate of inflation softened from June and was marginal overall. Higher costs were a commonly mentioned reason for increased charges, but some manufacturers commented on price discounting to enhance competitiveness.

% breakdown for July



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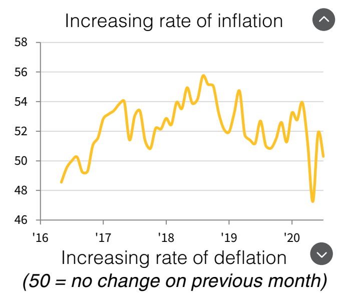
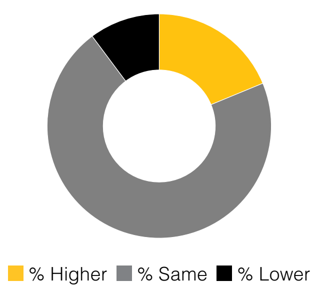


Input Prices Index

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

Average cost burdens increased again in July, as had been the case in each month since the survey began in May 2016. This was shown by the seasonally adjusted Input Prices Index registering above the neutral 50.0 level. The rate of inflation eased to the weakest for just over a year. Anecdotal evidence suggested that supplier fee hikes, increased freight fees and supply shortages contributed to inflation.

% breakdown for July



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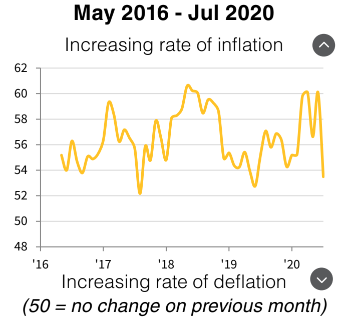


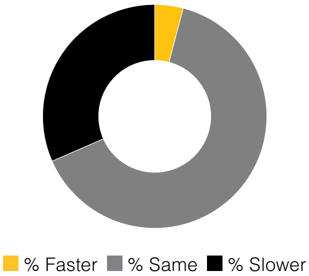
Index Reports

Suppliers' Delivery Times Index

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

Pressure on supply chains persisted in July, resulting in a further lengthening of delivery times. Firms generally commented on delayed shipping internationally and inter-state, as well as limited freight capacity. The rate of deterioration remained severe despite moderating further from April's record.

% breakdown for July



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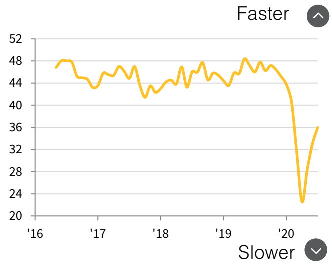


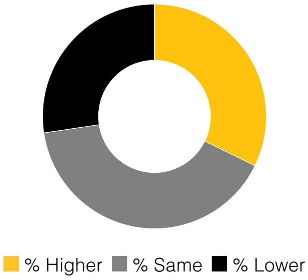
(50 = no change on previous month)

Quantity of Purchases Index

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

Australian manufacturers stepped up their purchasing activity in July, as reflected by the respective seasonally adjusted index posting above the no-change 50.0 level for the first time since November 2019. The rate of increase was solid and the fastest for just over one-and-a-half years. Higher sales and increased production demand were factors behind the increase in input buying.

% breakdown for July



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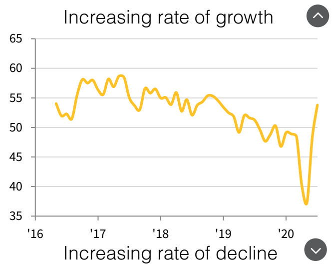


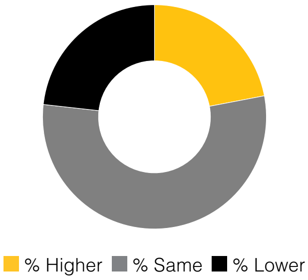
(50 = no change on previous month)

Stocks of Purchases Index

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

The level of input inventories was broadly unchanged at the start of the third quarter, ending a one-year period of depletion. This was indicated by the seasonally adjusted Stocks of Purchases Index registering fractionally above the neutral 50.0 level. Where growth was recorded, firms highlighted higher sales. Declines were meanwhile linked to a lack of availability of input materials as well as efforts to reduce stock levels.

% breakdown for July



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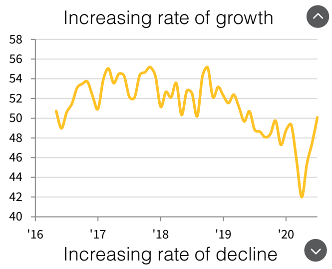


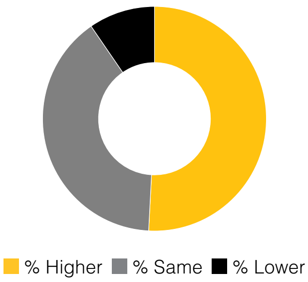
(50 = no change on previous month)

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 about the year-ahead output remained positive, although the degree of optimism slipped from June. The proportion of firms anticipating higher output over the next 12 months (51%) continued to far exceed those projecting a decline (10%). Optimism remained tied to expectations of the COVID-19 situation improving further in the coming months.

% breakdown for July



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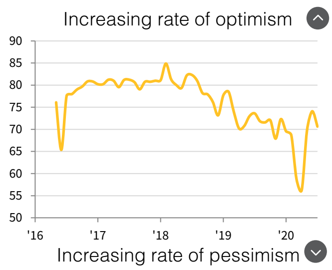

(50 = no change over next 12 months)

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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.