

September 2020

Manufacturing conditions improve further in August

Key findings

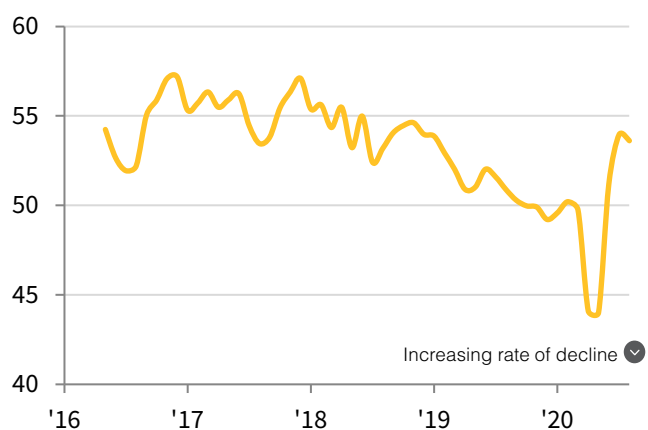
The recovery in the Australian manufacturing sector was sustained in August, building on the gains recorded at the start of the third quarter, according to the latest PMI data. However, the survey signalled a loss of growth momentum, owing partially to lockdown measures reimposed in Victoria. Output and new orders both increased further, but at slower rates. Supply chains remained under severe pressure, while job losses persisted amid efforts to control costs. Input cost inflation intensified in August.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – Aug 2020

(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[®]) dipped from 54.0 in July to 53.6 in August, but nevertheless indicated a further solid improvement in the health of the sector. The average PMI reading so far for the third quarter (53.8) represented a marked turnaround for manufacturing when compared to the second quarter (46.4).

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
Aug-20	53.6	Expansion, slower rate of growth
Jul-20	54.0	Expansion, faster rate of growth

Sustaining the upturn was further growth in production and new business. Output rose for a second month running, albeit at a weaker pace. Renewed virus-related restrictions in Victoria reportedly had a negative impact on production at some firms.

Demand also improved further in August. Order book growth was reported, though as was the case with output, the rate of increase slowed from July. The survey showed that sales growth continued to be driven by domestic markets, with external demand remaining subdued (in part due to border restrictions). Exports shrank for a seventh straight month. Some firms reported sales growth to New Zealand, China and the US, however.

The slowdown in sales growth contributed to companies operating below capacity in August, as reflected by backlogs of work falling following a modest rise in July. The presence of spare capacity and efforts to contain costs led to a further drop in employment.

Firms continued to step up their input purchases, albeit at a slower pace, consistent with output growth. However, the level of input inventories was broadly unchanged, while stocks of finished goods fell for a seventh straight month and to the second greatest degree in the survey history.

Meanwhile, the renewed lockdown in Victoria weighed on supply chains, with delivery times lengthening at the fastest since the peak impact of COVID-19 in April and May. Survey data subsequently showed supply shortages and increased freight fees drove up input prices. However, greater competitive pressure limited the ability of firms to raise prices. Output charges were broadly unchanged on July.

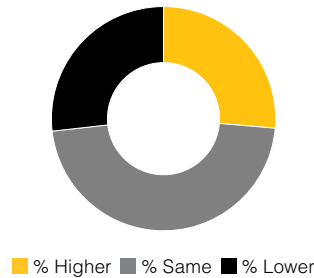
Index Reports

Output Index

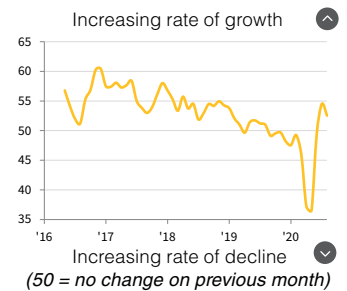
Q. Please compare your production/output this month with the situation one month ago.

Australian manufacturers recorded a second straight monthly rise in production during August. However, the rate of growth eased from July and was modest overall, as anecdotal evidence showed renewed restrictions in Victoria dampened output at some firms. Overall growth in production was linked to factories restarting operations and higher sales.

% breakdown for August



May 2016 - Aug 2020

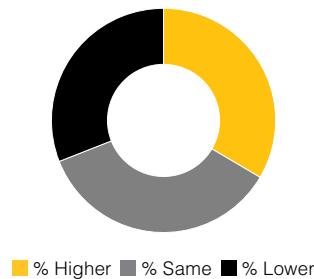


New Orders Index

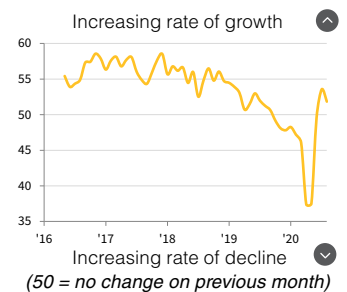
Q. Please compare the state of your new orders (in units) this month with one month ago.

Inflows of new business continued to rise in August, though the rate of increase moderated from July. This was reflected by the seasonally adjusted New Orders Index registering above the no-change 50.0 level. Firms highlighted that factors behind sales growth included stock replenishment, government stimulus, and greater market confidence.

% breakdown for August



May 2016 - Aug 2020

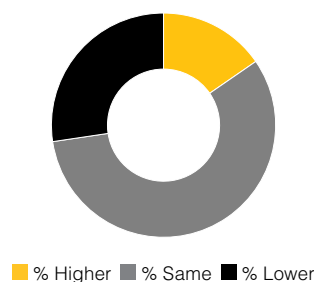


New Export Orders Index

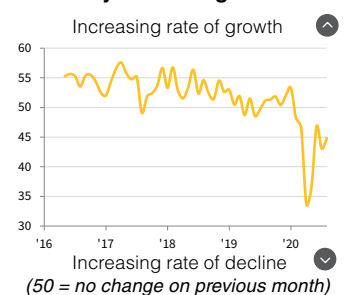
Q. Please compare the state of your new export orders (in units) this month with one month ago.

Foreign sales of Australian manufactured products continued to decrease in the middle of the third quarter, marking a seventh successive month of export decline. The rate of contraction slowed since July but remained sharp overall. The latest decline continued to reflect weak demand across international markets. Some firms noted higher sales to New Zealand, China and the US, however.

% breakdown for August



May 2016 - Aug 2020

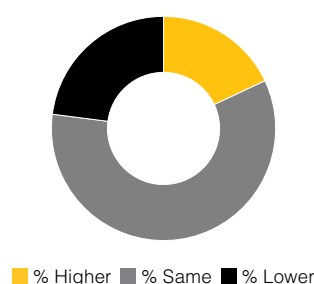


Backlogs of Work Index

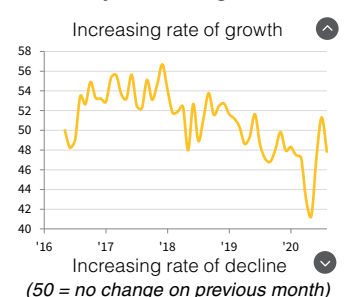
Q. Please compare the level of outstanding business in your company this month with one month ago.

The slowdown in sales contributed to reduced pressure on capacities during August. The level of unfinished work decreased after a modest rise in July. This was reflected by the respective seasonally adjusted index scoring below the no-change 50.0 level. Firms also mentioned that higher output helped to process previously-placed orders.

% breakdown for August



May 2016 - Aug 2020

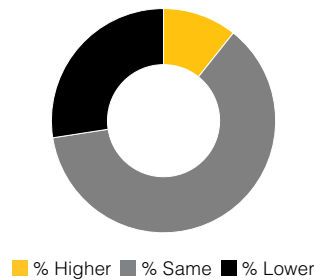


Index Reports

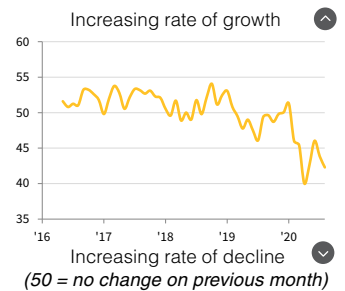
Stocks of Finished Goods Index Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

Survey data highlighted a further fall in finished goods inventories during August, stretching the current sequence of depletion to seven months. The rate of decline was the second-fastest in the survey history, surpassed only by April's record. Increased sales were a commonly mentioned reason for lower stockholdings.

% breakdown for August



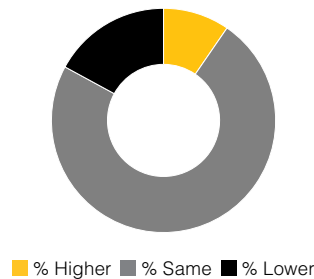
May 2016 - Aug 2020



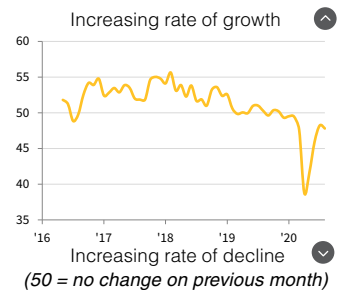
Employment Index Q. Please compare the level of employment at your unit this month with the situation one month ago.

Australian goods producers continued to lower their workforce numbers in August, as indicated by the seasonally adjusted Employment Index dropping below the neutral 50.0 level. The rate of decline quickened from July but was modest overall. Job shedding was linked to business closures and redundancies.

% breakdown for August



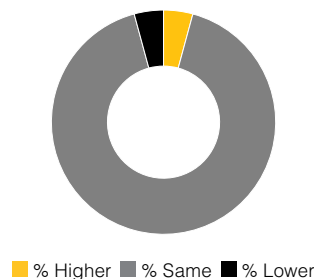
May 2016 - Aug 2020



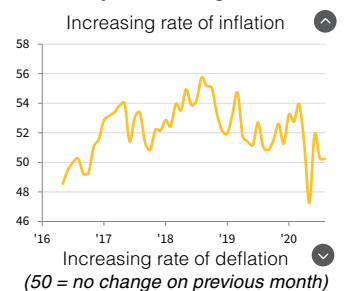
Output Prices Index Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

August data showed that prices charged for Australian manufactured goods increased marginally. This was shown by the respective seasonally adjusted index posting fractionally above the no-change 50.0 level. While higher charges were attributed to increased expenses, greater competition led to some firms providing discounts.

% breakdown for August



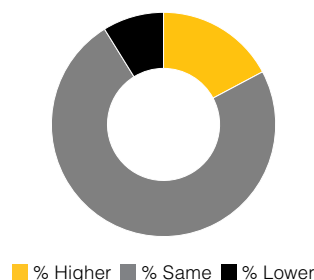
May 2016 - Aug 2020



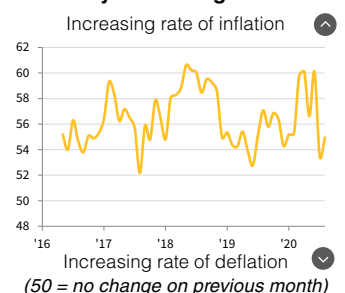
Input Prices Index Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

Average cost burdens increased again in August, 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 accelerated from July and was solid overall. Companies pointed to increased freight fees and greater prices for raw materials for inflation.

% breakdown for August



May 2016 - Aug 2020



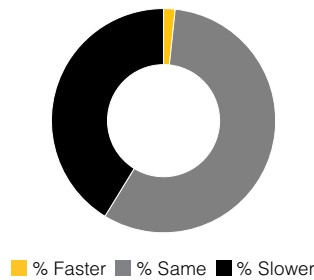
Index Reports

Suppliers' Delivery Times Index

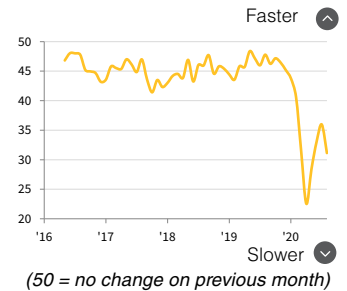
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

Average lead times lengthened further in August, with anecdotal evidence suggesting that renewed lockdown measures in Victoria added pressure to supply chains. The rate at which delivery times lengthen accelerated from July and was among the most severe in the survey history, surpassed only by the peak deteriorations seen in April and May. Other reasons included supply shortages and shipping delays.

% breakdown for August



May 2016 - Aug 2020

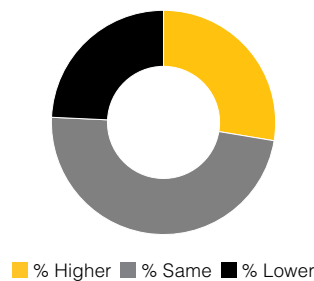


Quantity of Purchases Index

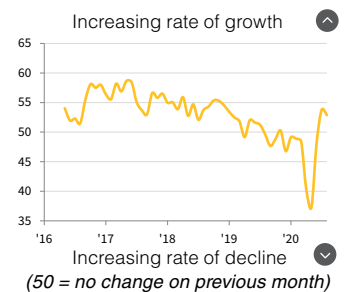
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

Australian goods producers stepped up their purchasing activity in August, as reflected by the respective seasonally adjusted index posting above the no-change 50.0 level. The rate of increase slowed from July but remained solid overall. Higher sales and increased production demand were reasons for greater input buying.

% breakdown for August



May 2016 - Aug 2020

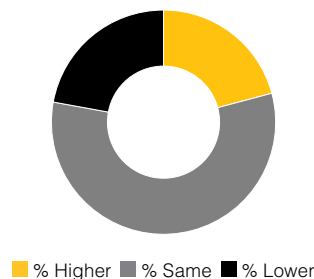


Stocks of Purchases Index

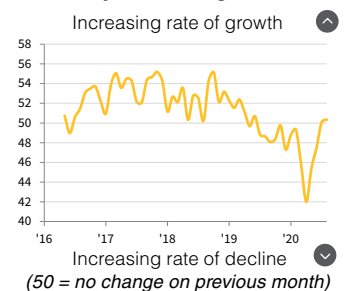
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

Stockholdings of input materials rose marginally midway through the third quarter, as indicated by the seasonally adjusted Stocks of Purchases Index registering just above the neutral 50.0 level. According to anecdotal evidence, growth was linked to preventive stock-building and increased production demand. Where declines were recorded, firms highlighted sufficient stocks and efforts to control costs.

% breakdown for August



May 2016 - Aug 2020

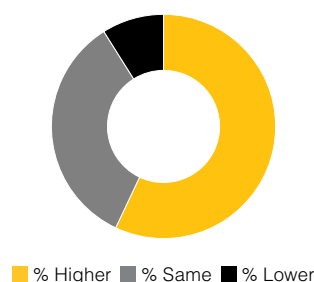


Future Output Index

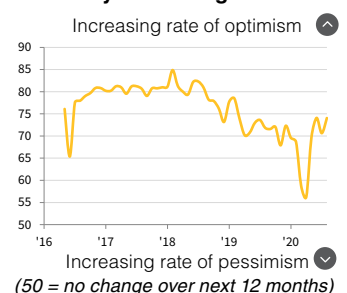
Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

Business expectations about year-ahead output remained positive, with the level of confidence rising from July. Reasons for optimism included projections of increased new orders and an eventual lifting of virus-related restrictions. Consumer goods producers were the most optimistic among the three major sub-sectors, followed by makers of intermediate products.

% breakdown for August



May 2016 - Aug 2020



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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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