

NEWS RELEASE: Embargoed until 09:00 (AEDT) 1 June 2020

PMI falls to all-time low as COVID-19 measures hit output

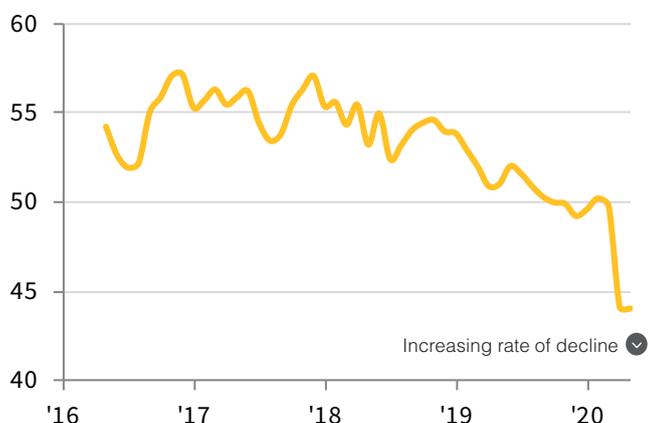
Key findings

The Australian manufacturing economy experienced a substantial deterioration in operating conditions during May as ongoing efforts to curb the spread of the COVID-19 pandemic continued to weigh on the sector. Output and purchasing activity both fell at record rates while demand weakened further. This led to firms discounting prices for the first time since October 2016 despite increased costs. That said, business confidence about the future rose to a five-month high.

Commonwealth Bank Manufacturing PMI[®] May 2016 – May 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[®]) fell fractionally from 44.1 in April to 44.0 in May, indicating a new record deterioration in the health of the sector. The average PMI reading so far for the second quarter pointed to a deepening manufacturing downturn.

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 |
|--------|------|-------------------------------------|
| May-20 | 44.0 | Contraction, faster rate of decline |
| Apr-20 | 44.1 | Contraction, faster rate of decline |

The impact of the global pandemic on Australian factories remained severe. Inflows of new business fell sharply again in May, with the rate of contraction broadly unchanged from April's record decline. A further steep fall in export sales also added to the weakening demand trend.

Falling sales, material shortages and, in some cases, factory closures led to a record decline in production volumes during May. With sharply reduced output requirements, companies sought to reduce capacity by cutting their staff numbers for a sixth straight month. Backlogs of work fell at a new record rate.

In line with weaker demand, firms scaled back on their purchasing activity, with the rate of decline the sharpest on record. Inventories of both inputs and finished goods were also depleted at steep rates.

Meanwhile, the time taken to deliver inputs to factories continued to lengthen due to reduced freight capacity, delays in transport routes and supply shortages. Although vendor performance deteriorated at a slower pace than in April, the rate of decline was the second-fastest in the survey history.

Input costs rose further in May, driven by supply constraints, higher freight costs and a weaker exchange rate. Instead of passing on higher costs to customers, firms chose to reduce their selling prices for the first time since October 2016 to stimulate sales.

On a brighter note, business sentiment improved to the strongest in five months, with firms expecting output to rise in the coming year on further easing of COVID-19 restrictions and subsequent return to normal conditions.

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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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