

NEWS RELEASE: Embargoed until 09:00 (AEDT) 3 February 2020

Slower manufacturing contraction signalled at start of 2020

Key findings

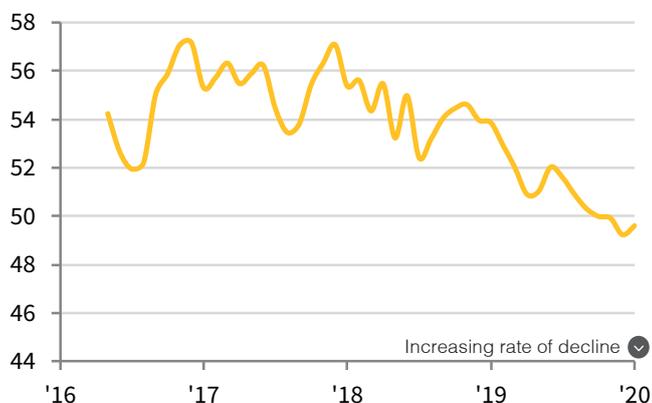
Business conditions worsened slightly again in the Australian manufacturing sector during January. New orders continued to fall, albeit at a softer pace amid growth in new export business. The rate of decline in output accelerated, however. Meanwhile, the impact of the bush fires on supply chains continued, leading to further delays in the delivery of inputs. On the price front, sharper rises in both input costs and output prices were signalled.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – Jan 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[®]) posted 49.6 in January, up from 49.2 in December but remaining below the 50.0 no-change mark. Business conditions have now deteriorated for three successive months.

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
Jan-20	49.6	Contraction, slower rate of decline
Dec-19	49.2	Contraction, faster rate of decline

Falling output weighed on the health of the sector during January as the rate of contraction in production accelerated to the fastest in the 45-month survey history. Where output decreased, panellists often mentioned weak market demand.

Challenging demand conditions were also evident with regards to new orders, which decreased for the fourth month running. That said, the decline in total new business softened amid a solid and accelerated expansion in new export orders. The increase in new business from abroad was the fastest since November 2018.

Lower workloads, staff resignations and efforts to limit cost increases contributed to a second successive reduction in employment in January, although the rate of job cuts was marginal.

Input costs increased at a marked pace that was sharper than in December. Currency weakness was widely mentioned as a factor leading input prices to rise. The rate of output price inflation also quickened as firms passed on higher input costs to their customers.

Suppliers' delivery times continued to lengthen as bush fires caused delays in transporting goods. Lead times lengthened sharply, and to the greatest extent in just under a year. Meanwhile, purchasing activity decreased slightly at the start of 2020.

An expected return to growth of new orders, work on new products and business expansion plans all supported confidence among manufacturers that output will rise over the coming year. However, sentiment dipped and was one of the lowest recorded by the survey to date.

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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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