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# Manufacturing recovery gains pace in July

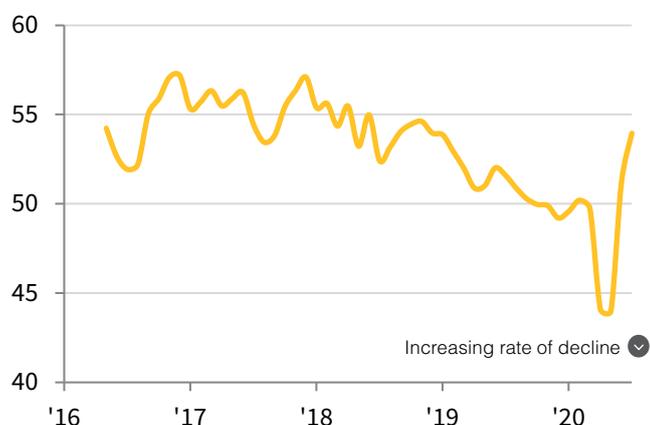
## Key findings

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<sup>®</sup> May 2016 – Jul 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*<sup>™</sup> (PMI<sup>®</sup>) 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.

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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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