

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

PMI improves in June as COVID-19 measures ease

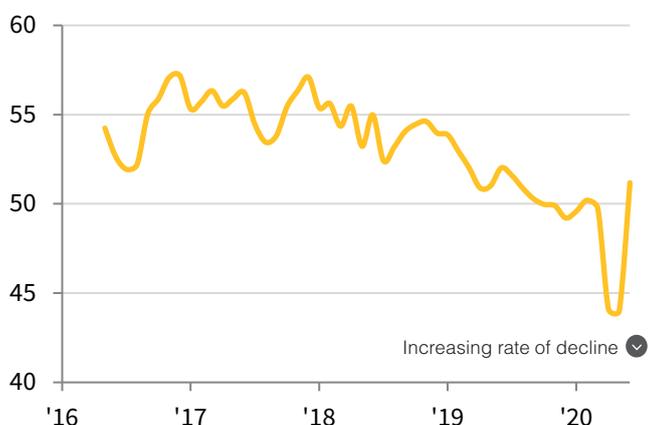
Key findings

Australian manufacturing conditions showed some modest improvement in June, according to the headline PMI figure, as the country relaxed its lockdown measures. The survey indicated a marked easing in the rates of decline in both production and new orders while confidence rose to a 16-month high on hopes of a further improvement in the coming months. However, firms were reluctant to invest in new capacity, and instead reduced employment and input purchasing in June to contain costs.

Commonwealth Bank Manufacturing PMI® May 2016 – Jun 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®)* rose sharply from a record low of 44.0 in May to 51.2 in June. The latest figure not only indicated an improvement in the health of the sector for the first time since February, but also showed the fastest rate of improvement for nearly a year.

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 |
|--------|------|-------------------------------------|
| Jun-20 | 51.2 | Expansion, change of direction |
| May-20 | 44.0 | Contraction, faster rate of decline |

The easing of COVID-19 measures in Australia benefited the manufacturing sector as more factories emerged from lockdown closures, particularly among consumer goods producers. However, the gradual reopening of the economy was insufficient to prevent a further drop in output. Production volumes fell again in June, but the rate of contraction was not as severe as the previous two months and only marginal.

The downturn in sales eased considerably in June, with new order inflows falling only marginally following unprecedented rates of decline in April and May. Export orders also fell at a softer pace. However, ongoing weakness in sales contributed to a rise in spare capacity which, in turn, dampened hiring. Employment declined for a seventh straight month amid reports of redundancies.

Firms also cut back on purchasing activity, though the rate of reduction was modest. Consequently, input inventories were depleted further as firms tapped into existing stocks to meet production requirements. At the same time, stocks of finished goods also decreased. Supply chains remained under pressure amid reports of material shortages and limited freight capacity. Another severe lengthening of delivery delays was subsequently recorded in June.

On the price front, input price inflation re-accelerated to the joint-fastest rate in two years, with firms only able to partially pass on these higher cost to clients.

Finally, business sentiment improved further in June to a 16-month high. Confidence was underpinned by expectations of further easing of COVID-19 measures in the year ahead.

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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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