

NEWS RELEASE: Embargoed until 09:00 (AEDT) 2 March 2020

PMI rises to five-month high amid supply disruptions

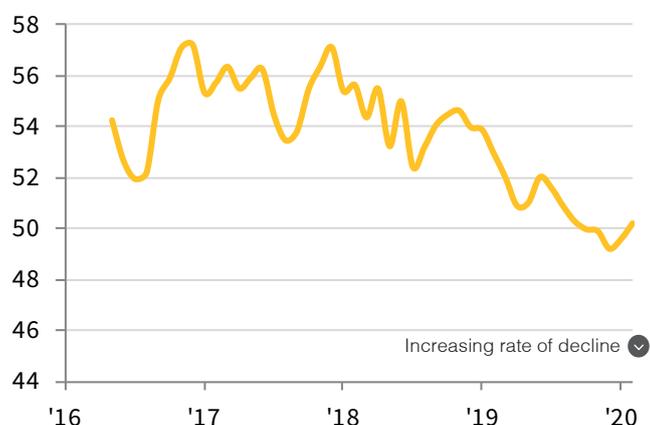
Key findings

February saw a rise in the headline PMI, fuelled principally by longer delivery times as supply chains were affected due to the coronavirus outbreak. Output, new orders and employment all continued to fall, which saw firms cut back purchasing activity and tap into current inventories. Stocks of both inputs and finished goods fell. Business confidence, while positive, stayed below the historical average. On the price front, input price inflation remained solid, while charges grew at a slower pace.

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[®]) rose to 50.2 in February, up from 49.6 in January. While the headline PMI came in above the no-change 50.0 level, the gain was not reflected across all five key sub-indices, with most signalling a deterioration since January.

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
Feb-20	50.2	Expansion, change of direction
Jan-20	49.6	Contraction, slower rate of decline

The coronavirus outbreak had an adverse impact on supply chains, with many Australian firms highlighting that the Covid-19 situation had led to material shortages at distributors that in turn caused delivery delays. Suppliers' delivery times, an index used in the calculation of the headline PMI, lengthened to the greatest extent in the survey history. As such, the gain in the headline index was primarily lifted by longer delivery times due to supply shocks rather than any demand-side improvement.

In fact, demand conditions weakened further in February. Inflows of new orders fell at the fastest pace since the series started in May 2016, dragged down by a survey-record reduction of export sales. The decline in foreign orders for Australian manufactured goods ended a six-month period of export growth. Lower sales led firms to scale back production again during February. Output shrank for a sixth straight month, albeit only marginally.

With the weakening sales trend, the level of backlogs continued to fall, reflecting excess capacity which, in turn, dampened hiring. Consequently, job shedding was reported for a third month running. Firms also cut back on purchasing activity, while inventories of both input and final products fell, with the latter contracting at the fastest rate on record and steep overall. Business expectations, while positive, remained subdued in the historical context, with concerns surrounding the coronavirus impact on numerous activity in the coming months.

Meanwhile, input costs continued to rise at a solid pace, but firms only managed to partially pass on the increase in cost to customers. Output charge inflation eased from January and continued to run below that of input prices.

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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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