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Manufacturing conditions improve at start of 2019.

Key findings

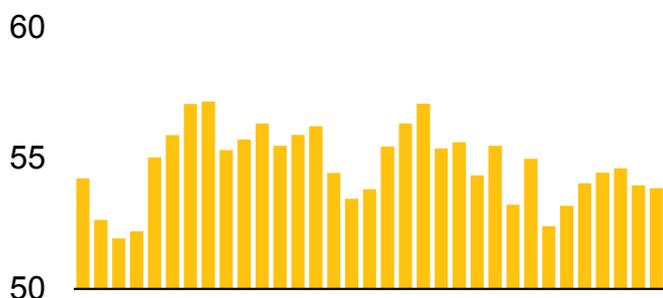
The start of 2019 saw a further expansion in Australia's manufacturing industry. While the improvement in the health of the sector was the slowest for five months, growth of production and sales remained solid. Strong business confidence also supported job creation and inventory accumulation. Meanwhile, the inflation picture was mixed. While input price inflation picked up, output charges rose at a slower pace.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – Jan 2019

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

The headline index from the survey, the seasonally adjusted Commonwealth Bank Manufacturing *Purchasing Managers' Index*[™] (PMI[®]) was at 53.9 in January, from 54.0 in December, marking another robust improvement in the health of the Australian goods producing sector. However, the latest reading was the lowest since last August.

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-19	53.9	Expansion, slower rate of growth
Dec-18	54.0	Expansion, slower rate of growth

While the survey brought further signs of slowing growth momentum in the manufacturing sector, the upturn remained solid, supported by robust expansions in both production and new sales. Export sales also maintained a firm pace of expansion, with reports of increased demand from the US and Southeast Asia.

The sustained upturn in demand for Australian manufactured products encouraged firms to continue expanding operating capacities and building inventories. The rate of job creation ticked higher in January, reflecting increased hiring efforts to keep on top of additional workloads. Backlogs of work rose further, albeit at a slower pace. Higher purchasing activity was reported at the start of the year which, in turn, contributed to a further accumulation in input stocks.

A combination of greater demand for inputs and material shortages at distributors placed further pressure on supply chains in January. Consequently, vendor performance deteriorated, with the rate at which delivery times lengthened accelerating to the fastest in seven months.

With demand exceeding supply, input costs rose further. The rate of inflation quickened from December, with firms highlighting increased prices of items, such as grains and industrial metals, and a weaker Australian dollar. Higher cost burden led firms to raise output prices to protect margins, though the rate of increase was modest.

Finally, business confidence improved at the start of the year, with 61% of panellists expecting higher output 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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