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Manufacturing PMI falls to survey low in September

Key findings

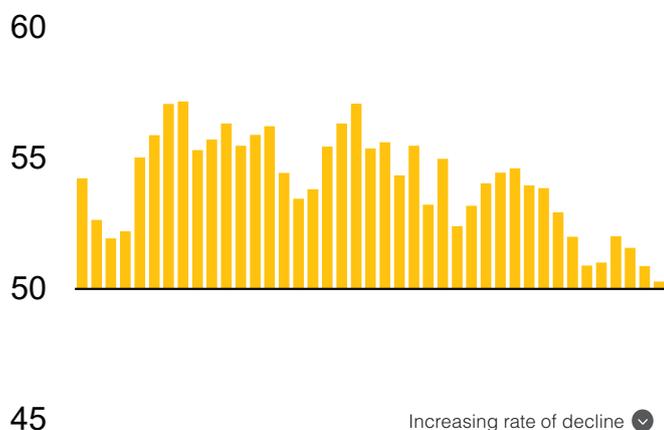
The end of the third quarter saw growth in Australia's manufacturing sector at a survey-record low. A weakening sales trend led to lower production volumes and decreased payroll numbers. Firms also cut back on their purchasing activity while inventories of both inputs and finished goods fell further. Input inflation remained solid, but charges rose only marginally. Business sentiment, while still positive, dropped to a four-month low.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – Sep 2019

(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[®]) fell from 50.9 in August to 50.3 in September, signalling the weakest improvement in manufacturing conditions since the survey history started in May 2016.

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
Sep-19	50.3	Expansion, slower rate of growth
Aug-19	50.9	Expansion, slower rate of growth

The latest survey data indicated that order book growth reached a survey-record low in September despite a further expansion in new export sales. Subdued sales contributed to a further development of spare capacity in the sector, as reflected by a third straight month of falling backlogs. In response to softening sales growth, Australian goods producers reduced production for the first time in five months. While slight, the rate of decline in output was the fastest since the survey began nearly three-and-a-half years ago.

Slower sales and output cuts contributed to firms' caution towards operations. Employment fell in September, the third time so far in the year that reduced manpower numbers were reported. Purchasing activity was scaled back further and at the most marked rate in the survey history. Inventories of both inputs and finished goods declined, with respondents commenting of efforts to reduce stocks amid softening sales growth.

Supply chains remained under pressure in September as material shortages and weather-related disruptions reportedly hampered distribution. On the price front, input cost inflation eased from August, but remained solid on the back of a weaker exchange rate and higher prices for raw materials. However, competitive pressures and weak sales growth limited the extent to which firms could pass on higher costs to customers. Output price inflation was the weakest for nearly two years.

Finally, business expectations fell to the lowest for four months, though on average firms expect output to rise in 12 months' time.

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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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