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Manufacturing PMI remains near three- year low in May

Key findings

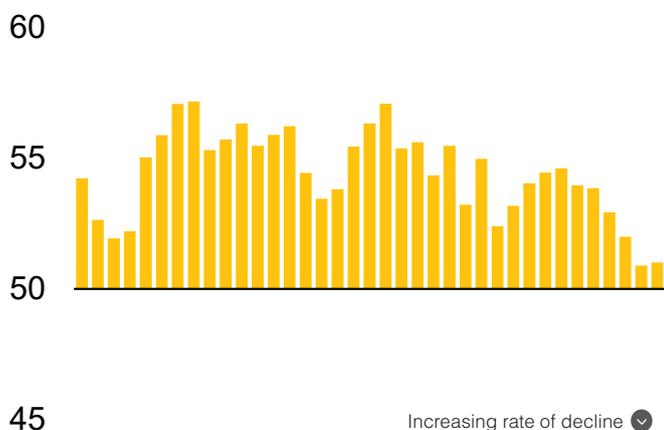
Australia's manufacturing sector expanded midway through the second quarter, with the headline index posting marginally higher than April's survey low. Latest data indicated a renewed rise in production and stronger growth in new orders. Export sales also recovered, while firms raised purchasing activity. However, input stocks fell for the first time in nearly three years and employment remained stagnant.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – May 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[®]) edged up to 51.0 in May, from 50.9 in April. The latest reading was the second-lowest since the survey began just over three years ago, indicating only a slight improvement in the health of the manufacturing sector.

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
May-19	51.0	Expansion, faster rate of growth
Apr-19	50.9	Expansion, slower rate of growth

Output rose in May, following a dip in April, reflecting a strengthening in demand conditions. New order inflows increased at a slightly faster pace in the middle of the second quarter, though remain well below the historical average. Renewed growth in export sales partially contributed to the overall rise in new business. Firmer demand led firms to raise purchasing activity, after a reduction in April.

That said, the increase in new sales failed to strain operating capacities. On the contrary, backlogs of work fell for a second straight month, albeit at a softer rate. Factory job numbers also remained broadly stagnant, as has been the case since March. Input stocks also decreased for the first time since June 2016 as firms highlighted efforts to maintain lean inventories amid an economic slowdown.

Supply chains remained stretched, but the rate at which average lead times lengthened was the slowest since the survey started in May 2016 and modest overall. Delivery delays were linked to lower stock levels at distributors.

Inflation also weakened during May. While solid, input costs increased at the slowest rate since August 2017. The softer rise in average cost burdens saw firms raise selling prices at the weakest rate for just over one-and-a-half years. Greater costs for raw materials, such as steel and fuel, as well as a weaker exchange rate were often mentioned as reasons for inflation.

Finally, firms continued to be positive about the business outlook in May, although the Future Output Index remained among the lowest levels seen in the survey history.

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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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