

NEWS RELEASE: Embargoed until 09:00 (AEDT) 1 March 2019

# Manufacturing growth softens to seven-month low.

## Key findings

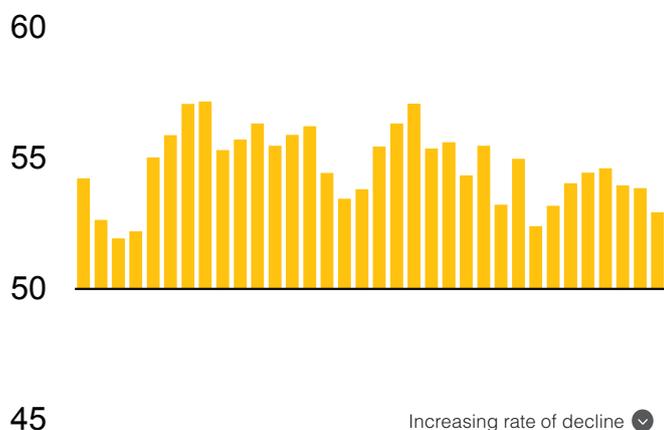
The middle of the first quarter saw further growth in Australia's manufacturing sector, but at its slowest pace in seven months. Softer expansions in output and new orders weighed on the headline PMI, while job creation was the weakest in two-and-a-half years. Notably, export orders grew marginally. Nonetheless, business sentiment improved. Meanwhile, inflationary pressures persisted, with output charges rising at a sharper rate.

## Commonwealth Bank Manufacturing PMI<sup>®</sup>

May 2016 – Feb 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*<sup>™</sup> (PMI<sup>®</sup>) eased to 52.9 in February, down from 53.9 in January. While this marked a solid improvement in the health of the Australian goods producing sector, the latest reading was the lowest since last July.

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-19	52.9	Expansion, slower rate of growth
Jan-19	53.9	Expansion, slower rate of growth

Both output and new orders expanded at the weakest rates in seven months. The trend in foreign demand softened noticeably, with export sales rising only marginally in February, and at the weakest pace for one-and-a-half years.

Furthermore, production schedules were reportedly impacted by a lack of input materials. Supply chains within the Australian manufacturing economy were disrupted by droughts and floods, according to anecdotal evidence. Delivery times lengthened at the fastest pace since June last year.

The resulting material shortages also contributed to higher input prices. Cost burdens within the sector continued to rise, with respondents reporting greater prices for input materials, including agricultural goods, metals and electrical components. The depreciation of the Australian dollar also added to higher (imported) costs. Consequently, firms raised output charges to protect profit margins.

Weakening demand conditions also weighed on the factory labour market. Employment growth was the softest since August 2016. Meanwhile, purchasing activity expanded at the weakest rate for seven months which, in turn, partially led to a slower accumulation in input inventories. Stocks of finished goods also rose at a marginal pace, contrasting with stronger growth seen in recent months.

Meanwhile, business confidence remained buoyant in February, with the majority of survey members (60%) projecting 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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