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Manufacturing slowdown continues in August

Key findings

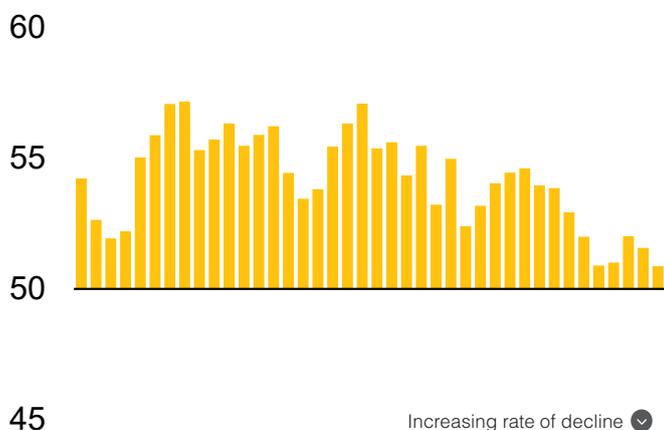
Latest PMI survey indicated a further moderation in growth of Australia's manufacturing sector in August. Output growth was only marginal, reflective of a weakening sales trend. Growth of overall new work slowed despite rising export sales. Softer demand conditions saw firms cut back on purchasing activity, deplete inventories as well as take on workers at a slower pace. Input inflation meanwhile intensified but charges rose only marginally.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – Aug 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[®]) slipped from 51.6 in July to 50.9 in August, indicating the joint-weakest improvement in manufacturing conditions since the survey history started in May 2016 (on par with April's reading).

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
Aug-19	50.9	Expansion, slower rate of growth
Jul-19	51.6	Expansion, slower rate of growth

The latest survey signalled a further softening of demand conditions midway through the third quarter. Despite a return to growth in export sales, overall new orders rose at the second weakest pace in the survey history. Anecdotal evidence highlighted higher competition and a weakening housing market as key reasons for lower overall sales.

Responding to slower new order growth, Australian goods producers scaled back on purchasing activity for the first time in four months, instead tapping into existing stocks to meet production requirements. Input inventories fell in August for the third time in the past four months.

Softer demand conditions led to a further development of spare capacity among Australian factories as indicated by a second consecutive month of decline in the level of unfinished business during August. In fact, the fall in backlogs was the steepest in the series history, which weighed on hiring. Jobs growth meanwhile slowed to the weakest pace for three months.

Supply chains remained under pressure in August, with material shortages and shipping delays from Chinese suppliers reportedly leading to the lengthening of delivery times. On the price front, input cost inflation intensified, lifted by a weaker exchange rate and higher prices for raw materials. However, the extent to which higher costs could be passed on to customers was limited amid slower sales growth. Output price inflation was the weakest for nearly two years.

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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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