

NEWS RELEASE: Embargoed until 09:00 (AEST) 3 September 2018

# Manufacturing growth remains relatively soft in August.

## Key findings

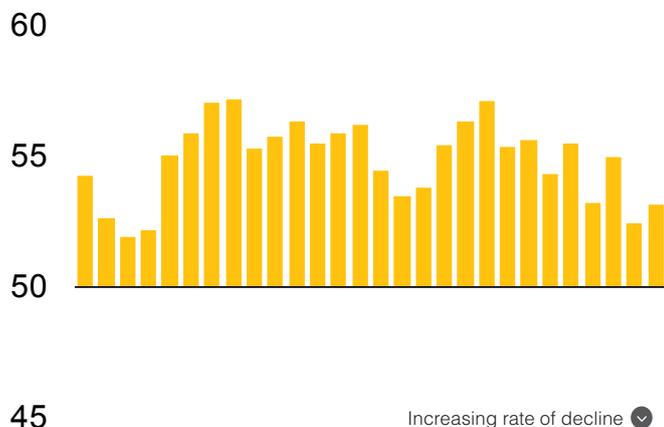
Australia's goods-producing economy continued to expand in August, but the pace of improvement was weak by historical standards. Although growth rates for both output and new orders quickened, they were softer than their respective long-run averages. Employment similarly rose at a relatively slow pace. Weakness in the domestic currency contributed to marked export growth, but also pushed up prices for imported materials.

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

May 2016 – Aug 2018

(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<sup>®</sup>) – a composite indicator designed to measure the performance of the manufacturing economy – increased to 53.2 in August, from 52.4 in July, to indicate a faster improvement in the health of the Australian manufacturing sector. That said, in comparison to historical PMI readings, the latest figure was indicative of a relatively weak pace of expansion.

## Summary

	PMI	Interpretation
Aug-18	53.2	Expansion, faster rate of growth
Jul-18	52.4	Expansion, slower rate of growth

The improved upturn in manufacturing sector conditions was supported by healthier inflows of new work. New orders increased markedly in August, with panellists linking this to greater promotional activities and successful contract tendering. However, by historical standards, new business growth was relatively mild. Export sales rose to a strong extent, with around one-quarter of firms reporting firmer international demand. Favourable exchange rate movements and greater orders from Asian markets were cited as supportive factors.

Higher workloads encouraged firms to boost output. Although the rate of production growth quickened from July's near two-year low, it remained relatively soft. Stocks of finished goods were marginally reduced in August. Inventories were used to fulfil orders, as firms sought to alleviate some pressure on production lines. Capacity was tested nonetheless, as evidenced by a renewed accumulation in backlogs of work.

Employment growth was sustained for the twenty-fourth straight month in August. That said, the rate of increase was only fractionally faster than July's recent low, and among the slowest seen over the current period of job creation.

Elsewhere, survey data pointed to sharp growth of purchase prices. Australian dollar weakness, as well as higher fuel, metal and food prices were mentioned by panellists. The rate of input cost inflation eased to a five-month low, but output charges were increased at the fastest pace since the survey began in May 2016. Panellists suggested that demand conditions were sufficiently strong to withstand higher selling prices.

## Comment

Commenting on the Commonwealth Bank Manufacturing PMI data, Gareth Aird, Senior Economist at the Commonwealth Bank, said:

*“A mixed result. PMI readings are still pointing to expansion, but hiring intentions have slowed, albeit they bounced off their July low.”*

Mr Aird, added:

*“Fundamentals remain sound, however, and there were some encouraging signs in the detail. Output prices rose at their fastest pace in the survey's history because client demand is robust. This means that firms are able to pass on the lift in input costs associated with the lower AUD. The lower level of the exchange rate has also further improved our international competitiveness. New export sales jumped in August, for example, and we expect them to remain firm in coming months.”*

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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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