

NEWS RELEASE: Embargoed until 09:00 (AEDT) 1 May 2020

# PMI falls to record low in April as COVID-19 measures hit sector

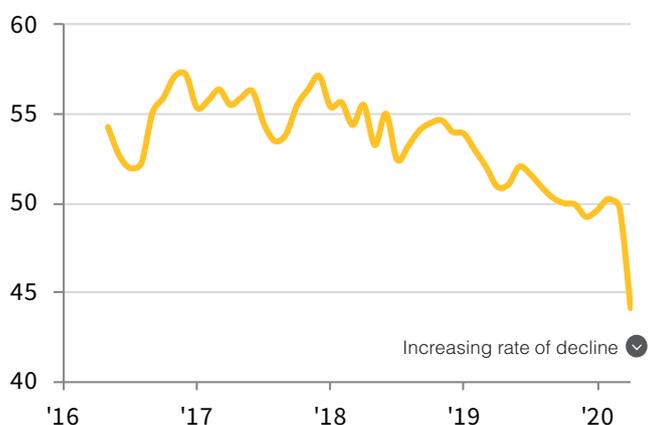
## Key findings

April saw the worst deterioration in Australian manufacturing conditions in four years of data collection, with output and new orders falling at new record rates as stricter COVID-19 measures weighed on the economy. The downturn in sales led firms to cut back on both purchasing activity and inventories. Hiring was also reduced sharply while business sentiment dropped to a record low. Meanwhile supply chains came under greater pressure, contributing to a sharp rise in input costs.

## Commonwealth Bank Manufacturing PMI<sup>®</sup> May 2016 – Apr 2020

(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>) fell to 44.1 in April, down from 49.7 in March. The latest reading was the lowest on record. The headline PMI is calculated from a weighted average of output, new orders, employment, input inventories and delivery times.

In recent months, the headline index has been heavily influenced by the COVID-19 pressure on supply chains as reflected by a severe lengthening of delivery times, which under normal circumstances will reflect a busier manufacturing economy.

## Summary

	PMI	Interpretation
Apr-20	44.1	Contraction, faster rate of decline
Mar-20	49.7	Contraction, change of direction

With stricter COVID-19 measures worldwide, supply chains came under greater pressure. Factory closures, congestions at sea ports, alongside high demand for airfreight services were mentioned as reasons for delivery delays. Suppliers' delivery times lengthened at the fastest pace in the survey history during April.

The global pandemic also severely impacted Australian demand conditions. Total new orders fell at a new record pace, in part driven by the fastest decline in foreign sales in the series history. Firms highlighted business suspensions and order cancellations as factors behind weak demand. Consequently, firms reduced production further and steeper. Output contracted for an eighth month running in April and at a rate unsurpassed in the four-year survey history.

Lower sales and factory closures contributed to the further development of spare capacity, as reflected by a record fall in manufacturing backlogs. This in turn dampened hiring. Job shedding accelerated to the quickest pace ever recorded, with forced layoffs and a freeze on staff replacement often mentioned as reasons. Decreased production requirements led firms to cut back their purchasing activity, which fell at the quickest rate on record. Consequently, input inventories were depleted further and at a record pace. Business confidence meanwhile sank to the lowest since the survey began in May 2016.

Supply shortages, a weaker currency and higher transport fees lifted input price inflation to the fastest since June 2018. However, weak demand saw firms unable to pass on fully the increase in cost to customers, with output charge inflation instead easing to a seven-month low.

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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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