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# Manufacturing PMI ends 2019 at a survey record low

## Key findings

December saw a steeper deterioration of Australian manufacturing conditions. The headline PMI was dragged down by survey-record falls in both new orders and output. The weakening sales trend led to a further development of spare capacity which, in turn, contributed to a fall in employment. Firms also cut back on both purchasing activity and input inventories. Meanwhile, input price inflation eased while output charges rose modestly.

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

May 2016 – Dec 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<sup>®</sup>) fell from 49.9 in November to 49.2 in December, indicating the deepest deterioration of manufacturing conditions since the survey history started in May 2016. At 49.7, the average PMI reading for the fourth quarter indicated a first quarterly decline on record.

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
Dec-19	49.2	Contraction, faster rate of decline
Nov-19	49.9	Contraction, change of direction

The manufacturing downturn was led by the steepest rate of decline in new orders in the series history during December. Inflows of new sales fell for a third straight month despite rising exports. This in turn contributed to another fall in backlogs of work, where further evidence of spare capacity dampened hiring. Job shedding was reported for the first time in three months, with the rate of decrease the second sharpest seen since the survey began just over three-and-a-half years ago.

Facing lower sales, firms cut production for a fourth month running and at a survey-record pace. Decreased output saw companies scaling back on purchasing activity. Input purchases fell at a rate not seen since the survey started in May 2016. Reduced buying levels led to a further depletion of input inventories, which also fell at the steepest rate seen in the survey history. Post-production stocks were broadly stagnant.

On the price front, overall cost burdens continued to rise in December but at a slower pace. Cost increases were often linked to a weak exchange rate, drought-related factors and suppliers' price hikes. Competition and a challenging operating environment however limited the extent to which firms passed on higher costs to customers. Output charges rose only modestly and at the slowest rate for three months in December.

Despite signs of weakening conditions, goods producers were at their most upbeat for five months regarding output in the year ahead. Expectations of improved economic conditions, higher sales projections and marketing activities were cited as factors driving growth.

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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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