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Manufacturing conditions improve further in August

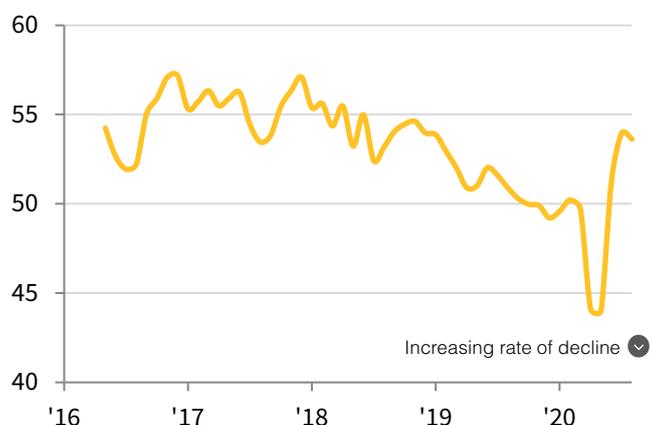
Key findings

The recovery in the Australian manufacturing sector was sustained in August, building on the gains recorded at the start of the third quarter, according to the latest PMI data. However, the survey signalled a loss of growth momentum, owing partially to lockdown measures reimposed in Victoria. Output and new orders both increased further, but at slower rates. Supply chains remained under severe pressure, while job losses persisted amid efforts to control costs. Input cost inflation intensified in August.

Commonwealth Bank Manufacturing PMI[®] May 2016 – Aug 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*[™] (PMI[®]) dipped from 54.0 in July to 53.6 in August, but nevertheless indicated a further solid improvement in the health of the sector. The average PMI reading so far for the third quarter (53.8) represented a marked turnaround for manufacturing when compared to the second quarter (46.4).

The headline PMI is calculated from a weighted average of output, new orders, employment, input inventories and delivery times. Readings below 50.0 signal a deterioration in business conditions on the previous month while readings above 50.0 show improvement.

Summary

	PMI	Interpretation
Aug-20	53.6	Expansion, slower rate of growth
Jul-20	54.0	Expansion, faster rate of growth

Sustaining the upturn was further growth in production and new business. Output rose for a second month running, albeit at a weaker pace. Renewed virus-related restrictions in Victoria reportedly had a negative impact on production at some firms.

Demand also improved further in August. Order book growth was reported, though as was the case with output, the rate of increase slowed from July. The survey showed that sales growth continued to be driven by domestic markets, with external demand remaining subdued (in part due to border restrictions). Exports shrank for a seventh straight month. Some firms reported sales growth to New Zealand, China and the US, however.

The slowdown in sales growth contributed to companies operating below capacity in August, as reflected by backlogs of work falling following a modest rise in July. The presence of spare capacity and efforts to contain costs led to a further drop in employment.

Firms continued to step up their input purchases, albeit at a slower pace, consistent with output growth. However, the level of input inventories was broadly unchanged, while stocks of finished goods fell for a seventh straight month and to the second greatest degree in the survey history.

Meanwhile, the renewed lockdown in Victoria weighed on supply chains, with delivery times lengthening at the fastest since the peak impact of COVID-19 in April and May. Survey data subsequently showed supply shortages and increased freight fees drove up input prices. However, greater competitive pressure limited the ability of firms to raise prices. Output charges were broadly unchanged on July.

For further information, please contact:

Commonwealth Bank of Australia

Daniel Ferguson

Group Corporate Affairs
Institutional and Business Banking
Telephone +61 2 9118 4531
Email media@cba.com.au

IHS Markit

Bernard Aw

Principal Economist
Telephone +65-6922-4226
Email bernard.aw@ihsmarkit.com

Katherine Smith

Public Relations
Telephone +1 781-301-9311
Email katherine.smith@ihsmarkit.com

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.

The early September releases of August data from the Commonwealth Bank Australia PMI series will be the final releases to carry Commonwealth Bank Australia branding.

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