

NEWS RELEASE: Embargoed until 09:00 (AEST) 1 May 2018

Business conditions improve markedly in April.



Key findings

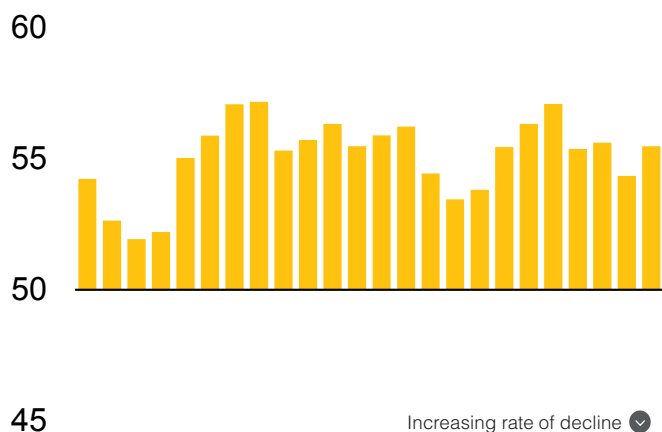
The Australian manufacturing sector began the second quarter on a solid footing, underpinned by stronger growth of output and new orders. Additional staff were recruited at a faster pace, while backlog accumulation accelerated amid intensified supply-chain pressures. Material shortages, combined with unfavourable exchange rate movements, pushed up costs, encouraging businesses to raise selling prices.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – April 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[®])* – a composite indicator designed to measure the performance of the manufacturing economy – posted 55.5 in April, up from March's six-month low of 54.3, signalling a stronger improvement in the health of the sector. Moreover, the PMI was above its average.

Summary

	PMI	Interpretation
Apr-18	55.5	Expansion, faster rate of growth
Mar-18	54.3	Expansion, slower rate of growth

April data pointed to a renewed acceleration in production growth, following three successive monthly slowdowns. Australian goods producers raised output strongly amid a greater influx of new work. Panellists attributed the rise in new business to improved client confidence and new contract wins. Overall, the rate of new order growth was sharp and quicker than that seen in March. At the same time, new export sales rose at the slowest pace seen across the current eight-month sequence of increase.

To accommodate for greater production requirements, purchasing activity rose at the fastest pace in four months. Stronger input demand weighed on supplier performance however, with delivery times lengthening to a marked degree. Difficulties in acquiring raw materials in a timely fashion also contributed to a further accumulation in backlogs of work. Outstanding business rose at the quickest pace since January. In order to manage higher workloads, and in anticipation of further growth, firms hired additional staff at a solid pace.

On the price front, cost burdens increased sharply in April. According to anecdotal evidence, a weaker Australian dollar and higher raw material prices underpinned the latest bout of inflation. This was partly offset by a rise in output prices, but the rate of increase in charges softened slightly.

Business confidence remained positive during April, with 64% of the survey panel forecasting higher output over the coming 12 months. The degree of optimism eased to a seven-month low, but was relatively elevated.

Comment

Commenting on the Commonwealth Bank Manufacturing PMI data, Michael Blythe, Chief Economist at the Commonwealth Bank, said:

"The Australian manufacturing sector started Q2 on a healthy note, with the PMI reading running above average. Readings on orders, jobs and output expectations are sending positive signals about the outlook further into 2018."

Mr Blythe, added:

"Our concerns about capacity pressures remain. The backlog of work is still rising, supplier delivery times are still lengthening and some demand is being met by running down stocks. These capacity pressures are helping support labour demand. But inflation risks are rising as well. Growth in input and output prices are at the high end of the survey range. The indications of a modest turnaround in the recent Q1 CPI data appear to be continuing into Q2."

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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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