

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

Manufacturing sector growth slows to six-month low.



Key findings

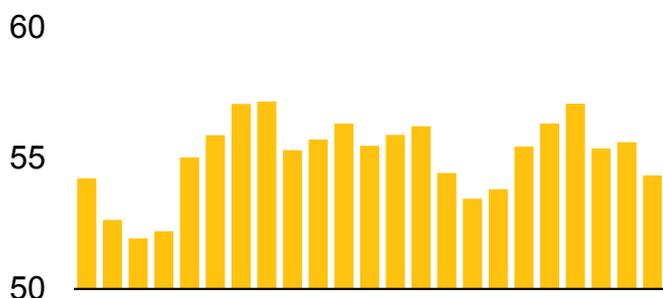
Australia's manufacturing sector continued to expand in March, albeit to the softest extent in six months. This slower pace of improvement reflected weaker growth rates for output, new orders and employment. Nonetheless, new business continued to expand sharply, exerting pressures on operating capacities and supply chains. Input prices rose markedly, amid raw material shortages, prompting firms to hike selling prices.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – March 2018

(50 = no change on previous month)

Increasing rate of growth 



45 Increasing rate of decline 

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 – declined to 54.3 in March, from 55.6 in February. This was the lowest reading recorded since September last year and below the average observed over the survey history. Nonetheless, the rate of improvement in the manufacturing sector was solid overall.

Summary

	PMI	Interpretation
Mar-18	54.3	Expansion, slower rate of growth
Feb-18	55.6	Expansion, faster rate of growth

Output growth slowed for a third month in a row in March to the weakest since September 2017. That said, the pace of expansion was solid overall. The latest rise in production was supported by healthy inflows of new work, and hampered by shortages of raw materials. New business increased sharply amid strong demand from both new and existing customers. Sales to overseas clients also rose during March, a trend which has been apparent in each of the last seven months.

Ongoing growth in order book volumes led to a further accumulation in backlogs of work. Lacking input supply was accompanied by strong input demand, ultimately weighing on vendor performance. Average lead times deteriorated sharply during March, although to the least extent since last August. Suppliers raised prices sharply, with panellists reporting higher costs for oil, steel and utilities. However, an accommodative demand environment enabled firms to partly offset this and raise output prices. The rate of charge inflation accelerated in March to a ten-month high.

Australian manufacturers continued to hire additional staff in March, in an effort to raise capacity and keep up with demand pressures. That said, the rate of job creation eased to a six-month low.

Lastly, confidence remained elevated, with two-thirds of panellists anticipating output to rise over the coming 12 months. Forecasts of stronger demand and planned new product launches supported business optimism.

Comment

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

"The Australian manufacturing sector continued to expand during the first quarter of 2018. The pace of growth, however, was a notch below the solid outcomes at the end of 2017."

Mr Blythe, added:

"Capacity pressures persist in the manufacturing sector. The backlog of work is still rising and supplier delivery times are still lengthening. Rapidly rising input prices – for oil, steel and utilities – are adding to potential inflation pressures. Manufacturers appear to be taking advantage of firm demand conditions to pass on these input price rises. Output prices expanded at the fastest pace since mid-2017."

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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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