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Manufacturing sector growth slows to near two-year low.

Key findings

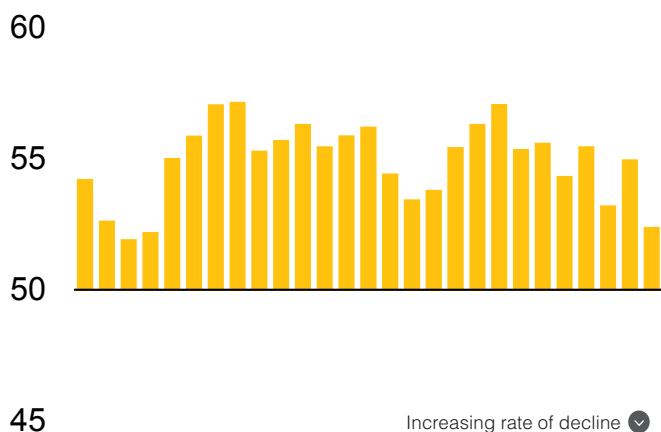
Growth momentum in the Australian manufacturing sector eased noticeably during July, as new orders and output both increased at weaker rates. Softer demand was broad-based, with export sales also rising to a slower degree. As a result, growth of employment and input buying slowed. Survey data pointed to strong cost inflationary pressures, which in turn motivated firms to raise output prices.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – July 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 – registered 52.4 in July, down from 55.0 in June, to signal a slower rate of improvement in the health of the Australian goods-producing sector. Although growth has been recorded in each month since data collection began in May 2016, the latest rise was the weakest for 23 months.

Summary

	PMI	Interpretation
Jul-18	52.4	Expansion, slower rate of growth
Jun-18	55.0	Expansion, faster rate of growth

Underpinning the slowdown in manufacturing sector growth was a new survey-low pace of expansion in new business. Some panellists noted that they had struggled to attract new sales due to challenging market conditions in their sub-sectors. Nonetheless, demand improved to a moderate extent amid reports of advertising efforts and strong sales to existing clients.

Survey data also signalled weaker new export order growth, with the pace of expansion easing to a three-month low. As a result of the slower rise in workloads, production was raised to the softest extent in almost two years during July.

However, anecdotal evidence pointed to planned company expansions and upbeat forecasts on sales. Business confidence strengthened to the second-highest since data were first collected in May 2016. A positive outlook supported further job creation in July. That said, employment growth eased to the slowest seen across the current 23-month sequence of upturn.

Weaker demand helped alleviate capacity pressures, with backlogs of work falling for only the second time in two years. With less pressure to fill incoming new orders, firms placed output into inventories.

Concurrently, input delivery times lengthened, signalling stretched capacity across supply chains. Panellists also noted that vendors increased their prices, contributing to a further month of historically-marked input price inflation. In response, firms raised selling charges to one of the quickest degrees since data collection began.

Comment

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

“Manufacturing activity has proved volatile of late. The sector continues to expand but a slowing is in train. The downside looks limited, however, with firms remaining very positive on the outlook for the year ahead. They are also indicating that employment is lifting on the back of planned business expansion and inventories are lifting in anticipation of additional work. Demand appears strong enough to allow a relatively rapid lift in output prices.”

Mr Blythe, added:

“The negative impact of a trade war would be magnified by any weakness in business confidence. That weakness is not evident at this early stage. New export orders fell in July. But they remain comfortable in expansion territory.”

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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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