

NEWS RELEASE: Embargoed until 09:00 (AEST) 2 October 2017

Solid growth signalled as capacity pressures intensify.



Key findings

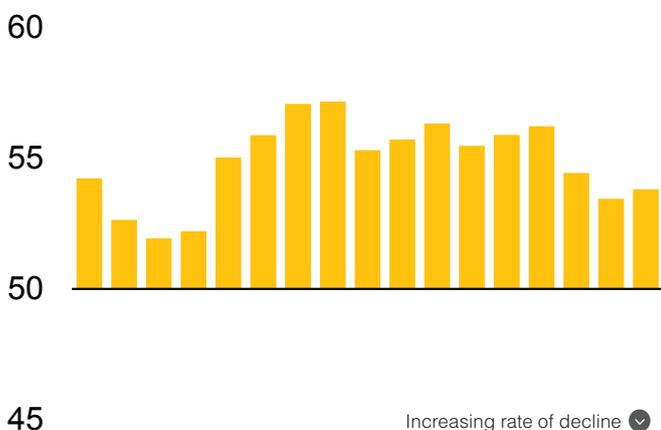
The Australian manufacturing sector expanded at a stronger rate at the end of the third quarter, despite slower rises in output and new orders. Instead, the improvement in growth was driven by markedly lengthening suppliers' delivery times, plus a quicker increase in inventories. Business confidence remained positive, despite easing to a one-year low, while employment rose modestly.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – September 2017

(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 – edged up in September to 53.8. That was an improvement on August's 12-month low of 53.5, but still below the average for the survey which began in May 2016. PMI readings above 50.0 signal growth, while those below 50.0 indicate contraction.

Summary

	PMI	Interpretation
Sep-17	53.8	Expansion, faster rate of growth
Aug-17	53.5	Expansion, slower rate of growth

September's survey indicated the continued expansion of manufacturing output and new orders. However, rates of growth were softer, easing to the lowest recorded by the survey for 13 and 15 months respectively.

Panellists indicated that economic conditions remained positive, with demand rising both at home and abroad. New export orders rose modestly, following August's marginal fall, with Asia-Pacific reported to be the primary source of expansion.

There were reports from a number of firms that competitive pressures had restricted growth which was also noted as a reason for limited pricing power. Latest data showed prices charged rising at the weakest rate in ten months in spite of a sharper increase in input prices.

Unfavourable exchange rate factors and suppliers raising their prices in general were indicated as inflationary drivers. Vendors were reported to be under considerable pressure, amid evidence of stock shortages at a time of strong demand. Lead times lengthened to the greatest extent since the start of the year.

Capacity pressures were also evident at manufacturers, with backlogs rising to the strongest degree in three months. Employment continued to increase in response, although the rate of expansion was modest and unchanged on August's one-year low.

Finally, business confidence remained high despite weakening to a one-year low. Positive demand conditions are expected to be sustained over the next 12 months.

Comment

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

"The PMI stabilised in September after declines in July and August. Manufacturing activity is still expanding but it appears that the period of acceleration is over. Nevertheless, panellists report that economic conditions remain favourable and this positive view extends to expectations for the next year."

Mr Blythe, added:

"Some of the themes evident for a while now were again on show in September. Capacity pressures continue to lift with backlogs of work and supplier delivery times lifting again. And competitive pressures mean that output prices are lagging well behind growth in input costs."

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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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