

NEWS RELEASE: Embargoed until 09:00 (AEDT) 1 February 2018

Manufacturing sector growth remains strong.



Key findings

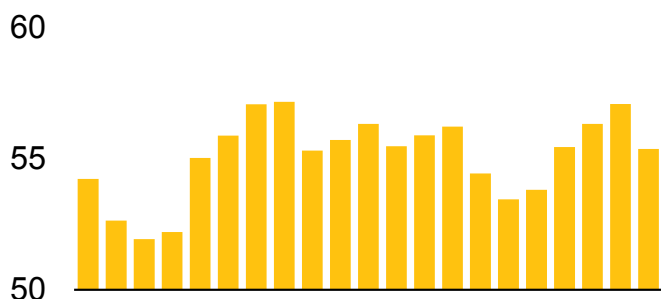
Growth of Australia's manufacturing sector was sustained during January, underpinned by strong expansions in both output and new orders. In turn, greater inflows of new business encouraged firms to raise employment. Despite this, outstanding business increased amid further delayed deliveries of purchased inputs from suppliers. Supportive demand conditions coincided with an improvement in business confidence.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – January 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 – registered 55.4 in January, from 57.1 in December, signalling a marked upturn in the Australian manufacturing sector. That said, the rate of improvement eased to a four-month low.

Summary

	PMI	Interpretation
Jan-18	55.4	Expansion, slower rate of growth
Dec-17	57.1	Expansion, faster rate of growth

Australian manufacturers raised production during January in line with strong growth in new business inflows. Furthermore, demand from overseas markets increased for a fifth consecutive month, underpinned by new orders from Asia and the U.S.A. That said, growth of new work eased to the weakest since September last year, driving a slower expansion in output.

Firms increased buying activity amid higher new order receipts. According to anecdotal evidence, panellists also expect workloads to rise further. In turn, the rate at which additional inputs were purchased increased strongly. Greater demand for inputs resulted in intensified capacity pressures across the supply chain, contributing to a sharp lengthening of average lead times. A combination of delayed raw material deliveries and strong client demand led to an accumulation of outstanding work.

In line with greater production requirements, firms hired additional staff. Although the rate of job creation eased slightly, it remained relatively marked. Payroll numbers have expanded in each month since September 2016.

On the price front, input cost inflation was sustained due to rising prices for energy and metals. In efforts to protect profit margins, firms raised output charges to the greatest extent since August 2017.

Lastly, business optimism strengthened to a six-month high. Confidence was linked to growth forecasts, higher capital expenditure and new opportunities in overseas markets.

Comment

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

"The Australian manufacturing sector has started 2018 on a healthy note. The headline PMI expanded at a slightly slower pace than in December. But readings for current and future conditions remain strong. New orders from both domestic and offshore sources, for example, are expanding".

Mr Blythe, added:

"Earlier concerns about capacity constraints remain. The backlog of work continues to rise and delivery times continue to lengthen. The resultant pressures on input costs are filtering through the pricing chain. It seems that demand is strong enough to allow manufacturers to protect margins by lifting output prices".

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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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