

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

Manufacturing sector growth eases to 21-month low.

Key findings

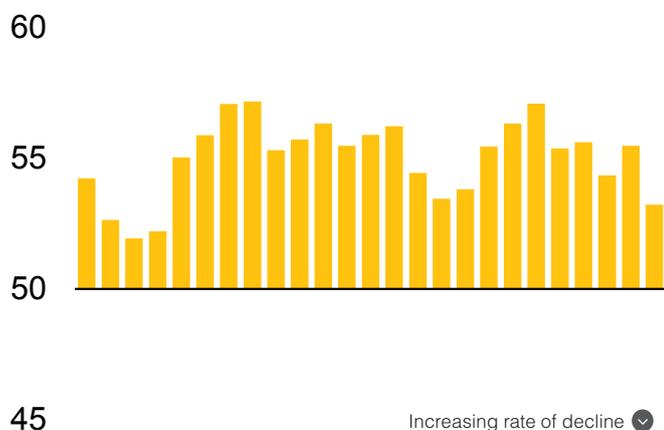
Growth momentum in the Australian goods-producing sector eased noticeably in May, with overall business conditions improving at the weakest pace since August 2016. A softer expansion in new orders led to a moderation in output growth, prompting firms to hire staff at a slower rate. A weaker Australian dollar and rising raw material prices translated into intensified cost pressures, driving output price inflation to a fresh survey-high.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – May 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 – fell to 53.2 in May, from 55.5 in April, to signal a moderate improvement in the goods-producing sector. However, the latest figure pointed to a loss of growth momentum, with the upturn weakening to a 21-month low.

Summary

	PMI	Interpretation
May-18	53.2	Expansion, slower rate of growth
Apr-18	55.5	Expansion, faster rate of growth

New sales were secured by Australian manufacturers in May, continuing a trend of improving demand which has been apparent since data collection began in May 2016. However, the rate of growth, albeit strong overall, slowed to an eight-month low. Nonetheless, greater export sales and new customer wins were mentioned as factors behind the latest upturn in workloads. Survey data pointed to the fastest increase in new overseas business since February.

In line with the softer rise in new orders, production increased to a weaker extent in May. Although the pace of output expansion was solid overall, it was weaker than the average seen across the 25-month sequence of increase. Nonetheless, firms continued to hire extra staff, although job creation eased to the slowest in eight months. Softer demand also helped alleviate pressure on production capacities, with backlogs of work falling for the first time since July 2016.

Pressures on supply chains were evident in May. Panellists reported stock shortages and that deliveries from international suppliers were particularly slower. At the same time, input buying rose at the weakest pace in 21 months.

Despite softer input demand, purchasing price inflation accelerated to a new survey-high in May. Panellists associated higher cost burdens with unfavourable exchange rate movements and raw material price hikes. In response, output charges were raised at the sharpest rate since data collection started in May 2016.

Comment

Commenting on the Commonwealth Bank Manufacturing PMI data, Gareth Aird, Senior Economist at the Commonwealth Bank, said:

"A disappointing result. PMI readings are still pointing to expansion, but hiring has slowed and growth in new orders ebbed to an eight-month low".

Mr Aird, added:

"We aren't too concerned, however, as the fundamentals remain sound. Some firms have pointed to the lower AUD as putting upward pressure on both input and output costs, which have lifted again to fresh highs. But the lower AUD also enhances our international competitiveness. New export sales, for example, increased at their fastest pace since February, and there was a solid rise in new overseas business."

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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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