

NEWS RELEASE: Embargoed until 09:00 (AEDT) 2 January 2018

Manufacturing sector growth quickens to one-year high.



Key findings

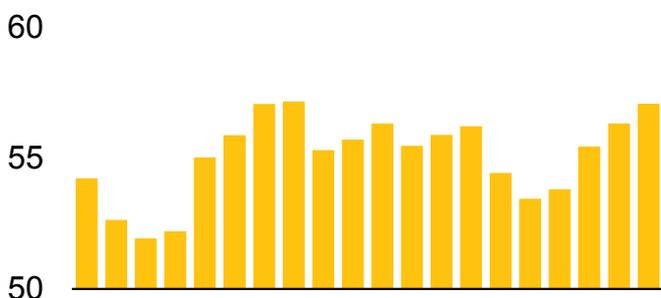
Accelerated growth of output and a sharper increase in new orders underpinned the latest marked expansion in the Australian manufacturing sector. Capacity pressures were tested, with backlogs of work rising at the steepest rate seen in the survey history. Firms responded to this by raising employment at a relatively strong pace. In turn, business confidence strengthened to a five-month high.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – December 2017

(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 – rose to 57.1 in December, from 56.3 in November, the highest reading in one year. Moreover, the PMI averaged 56.3 in the final quarter of 2017, the greatest figure since Q4 2016.

Summary

	PMI	Interpretation
Dec-17	57.1	Expansion, faster rate of growth
Nov-17	56.3	Expansion, faster rate of growth

New orders placed with Australian manufacturers increased sharply and at the quickest pace in 13 months during December. Panellists indicated strong demand from both new and existing clients. Furthermore, there were reports of new business inflows from Asia as well as New Zealand and Papua New Guinea. New export orders rose markedly and at the fastest pace since April. Consequently, greater business opportunities supported the sharpest upturn in production since June.

Faster new business growth contributed to a further rise in outstanding work. In fact, the rate of backlog accumulation was the sharpest seen in the 20-month survey history. This prompted firms to hire more staff to enhance operating capacity. Although job creation eased slightly, it remained relatively strong.

Purchasing activity was raised during December in line with forecasts of further order book expansions. This also underpinned strong optimism regarding future output, with the level of confidence climbing to a five-month high. Meanwhile, input stocks were accumulated at a solid pace, despite a further lengthening of average lead times. Panellists reported material shortages at some distributors, and slower deliveries from overseas suppliers.

Input price inflation was driven by vendors raising their list prices and recent Australian dollar weakness. Cost inflation, despite weakening, remained sharp overall. In turn, firms raised their own charges to protect profit margins.

Comment

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

"The Australian manufacturing sector ended 2017 on a solid note. Manufacturing activity picked up during the December quarter and prospects for 2018 look bright. Key leading indicators from the survey like employment, new orders and future business expectations are running well above average levels".

Mr Blythe, added:

"Capacity constraints are starting to bite. The Backlogs of Work Index is at a record high and the Suppliers' Delivery Times Index is showing an increasing deterioration. These constraints are keeping the demand for labour strong and seeing an increasing resort to overtime. Against this backdrop, the recent turn up in non-mining capex is a welcome development".

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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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