

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

Job creation quickens amid stronger new order growth.

Key findings

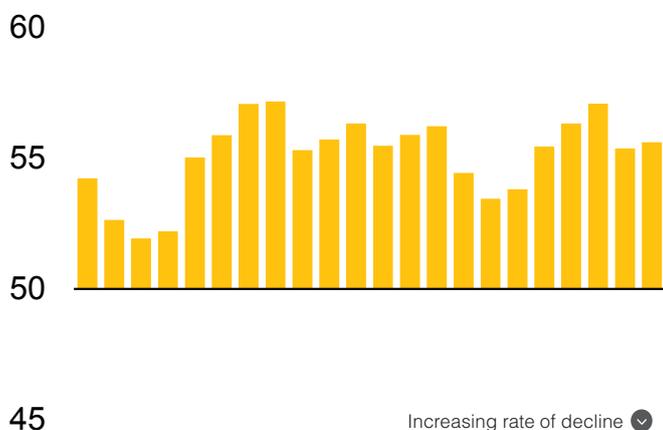
Australia's manufacturing sector continued to improve strongly in February, supported by robust output growth and increased new business inflows. Buoyed by these trends, both business confidence and the rate of job creation reached fresh survey highs. As a result of higher staff levels, backlogs of work increased to a weaker extent. Meanwhile, strong demand led to intense pressures on supply chains, with delivery times rising.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – February 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 – edged slightly higher to 55.6 in February, from 55.4 in January, signalling a strong rate of improvement in the health of the manufacturing sector. The headline PMI has recorded above the 50.0 no-change mark in each month since the survey began in May 2016.

Summary

	PMI	Interpretation
Feb-18	55.6	Expansion, faster rate of growth
Jan-18	55.4	Expansion, slower rate of growth

Australian manufacturers continued to raise output during February, extending the expansionary trend that has been observed since data collection began 22 months ago. That said, the rate of growth weakened to a four-month low. Nonetheless, new business inflows rose sharply and to a quicker extent amid reports of successful marketing campaigns and greater demand from abroad. Anecdotal evidence suggested that new work from US and Asia-Pacific based customers had underpinned a ten-month high in new export order growth.

In line with improved demand, manufacturers were overwhelmingly confident regarding future output during February. In fact, the degree of optimism rose to a fresh survey high. Expectant that order book volumes will continue to expand, firms added to their payrolls at the fastest pace seen since the survey began in May 2016.

Despite greater staff levels, outstanding business with Australian manufacturers increased in February. That said, the rate of accumulation eased to the lowest seen over the current 19-month sequence of rising backlogs. Capacity pressures were also apparent across supply chains. Average lead times lengthened due to strong demand and raw material shortages.

On the price front, input cost inflation accelerated to an 11-month high amid higher food, fuel and metal prices. Subsequently, manufacturers raised factory gate charges to partly offset higher cost burdens. That said, the rate of output price inflation weakened slightly since January.

Comment

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

“Australian manufacturers are reporting positive activity and positive expectations in the early months of 2018. The headline PMI picked up in February and is running above the average level over the life of the survey. Expectations for future output are running at record highs.”

Mr Blythe, added:

“Australian manufacturers are benefiting from the positive global backdrop. New export orders were up sharply in February. This extra demand is driving strong jobs growth. But capacity pressures remain evident in the run-down of finished goods stocks, lengthening supplier delivery times and rising backlogs of work. Rising input and output prices are one outcome.”

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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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