

NEWS RELEASE: Embargoed until 09:00 (AEST) 1 September 2017

Slowest growth for a year in August.

Key findings

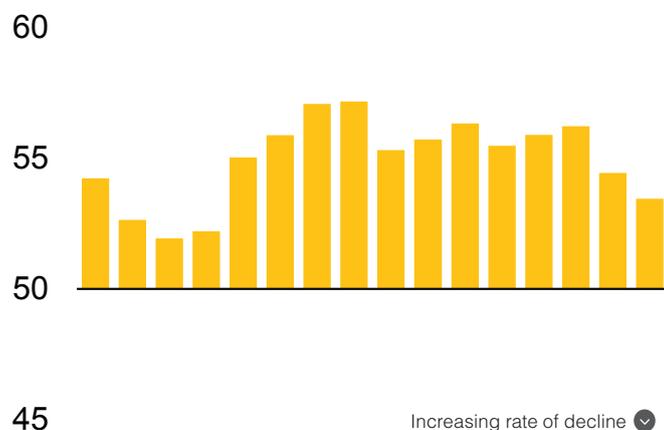
Growth of Australia's manufacturing sector was sustained during August, but at the slowest rate for a year. Output, new orders and employment all recorded their weakest gains in the past 12 months, with sectoral expansion undermined in part by a slight drop in new export orders: the first recorded by the survey to date. Business confidence, however, remained elevated, whilst input prices rose to a much lesser degree.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – August 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 – weakened to a level of 53.5 in August (down from 54.4 in July). Although growth has been sustained throughout the survey history (data were first collected in May 2016), the latest reading indicated the weakest improvement in operating conditions for a year. Readings above 50.0 signal growth, while those below 50.0 indicate contraction.

Summary

	PMI	Interpretation
Aug-17	53.5	Expansion, slower rate of growth
Jul-17	54.4	Expansion, slower rate of growth

Both manufacturing output and total new orders rose at rates that were the slowest recorded by the survey since August 2016. That said, in both cases, growth remained relatively marked amid reports of ongoing underlying demand strength, particularly from domestic sources. Moreover, panellists retain a strong degree of optimism that production will continue to rise: over 65% of the survey panel are forecasting an increase in output over the next 12 months.

Undermining overall sales wins in August (and production) was a softening in new export orders. Latest data showed a marginal fall, the first time a decline in exports has been recorded in 16 months of data collection. There were reports that demand from overseas had waned, with clients noted to be purchasing less compared to earlier in the year.

That said, there were some reports from manufacturers of having insufficient capacity to take on extra work. This was highlighted by further growth in backlogs of outstanding business in August and also encouraged firms to charge more for their output. Average output prices rose to the greatest degree since May and at a rate above that seen for input costs, implying a boost to margins. Although prices for a variety of foodstuffs were noted to have risen in price, a strong Australian dollar reportedly limited inflation.

Finally, companies continued to recruit additional workers in August, albeit to the weakest degree in the current 12-month period of expansion.

Comment

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

"The stepdown in PMI readings in August follows that in July and suggests some modest slowing in manufacturing activity in the September quarter. The slowing is connected in part with a step down in new export orders. And this pullback underlies recent RBA concerns that a stronger AUD is weighing on the outlook for domestic output and employment."

Mr Blythe, added:

"More disappointing, however, are the reports from some panellists that capacity constraints are holding back output. The backlog of work lifted again in August and delivery times lengthened. The reluctance of business to lift capex in recent years may limit our ability to fully benefit from an improving global economy and solid underlying domestic backdrop. So the latest data on capex is encouraging."

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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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