

NEWS RELEASE: Embargoed until 09:00 (AEST) 2 October 2018

# Manufacturing sector growth climbs to three-month high.



## Key findings

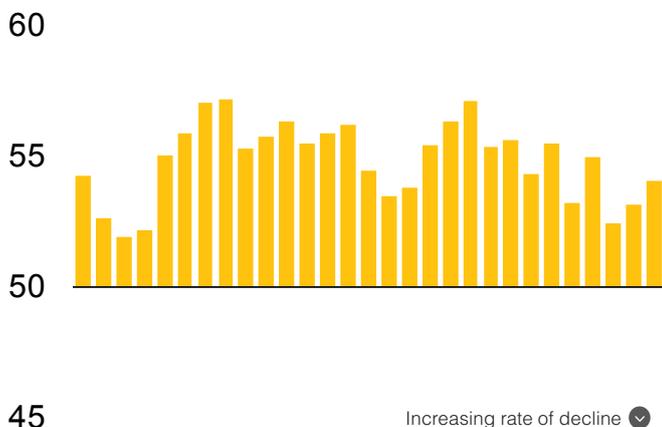
The health of Australia's manufacturing sector improved solidly in September and at the greatest pace since June. New business increased at the fastest rate since April, encouraging stronger growth in production. However, backlogs of work were accumulated as firms raised employment only mildly. Input buying and stockpiling were raised to cater for additional workloads, despite a further lengthening of supplier delivery times.

## Commonwealth Bank Manufacturing PMI<sup>®</sup>

May 2016 – Sep 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<sup>®</sup>) – a composite indicator designed to measure the performance of the manufacturing economy – rose to 54.0 in September, from 53.2 in August, drawing to a close a relatively disappointing quarter of expansion where the average (53.2) was the weakest since Q3 2016. Nonetheless, the overall improvement in manufacturing conditions during September was solid overall and the strongest since June.

## Summary

	PMI	Interpretation
Sep-18	54.0	Expansion, faster rate of growth
Aug-18	53.2	Expansion, faster rate of growth

Australian goods producers observed favourable inflows of new work during September. New business increased strongly and at the fastest pace since April amid reports of greater demand from both new and existing clients. Growth in sales to overseas markets was also recorded in September. In response, firms raised production solidly and at a quickened clip. The rate of increase was notably stronger compared to those in July and August.

To accommodate for greater workloads, input buying increased in September. Anticipating further improvements in demand, firms raised their stocks of items for production purposes to the greatest extent in nine months. That said, supply chains were squeezed by higher input requirements, with delivery times lengthening further.

The ability of Australian manufacturers to fulfil orders was tested by the combination of longer input delivery times and stronger inflows of new business. In turn, backlogs of work were accumulated to the strongest extent since January. Employment was raised in September, but the rate of growth was the softest seen across the current 25-month period of job creation.

Meanwhile, survey data pointed to sharp input cost and output price increases in September. Respective rates of inflation were elevated and both remained close to recent record highs. Panellists indicated that weakness in the Australian dollar had exacerbated raw material price rises.

Lastly, business confidence remained strong in September, with 61% of panellists anticipating higher production in a year's time.

## Comment

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

*"A healthy result. PMI readings have climbed higher over the past two months despite some concerns globally emanating from US trade policy."*

Mr Aird, added:

*"Output has accelerated over the September quarter and the trend is encouraging. The slowdown in hiring looks like a natural response to the big lift in employment earlier in the year. The lower AUD continues to put upward pressure on input costs, as do rising new material costs. But firms have been able to lift output prices in response which indicates robust aggregate demand."*

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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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