

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

Manufacturing sector expands strongly in June.



Key findings

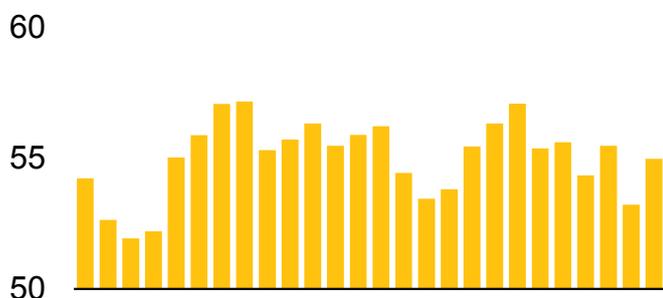
Growth momentum in the Australian manufacturing sector picked up at the end of the second quarter. Demand improved at a sharp pace, prompting firms to raise employment and boost production. Furthermore, favourable operating conditions led to a strengthening of business confidence. At the same time, capacity pressures were evidenced by lengthening input delivery times and increased backlogs of work.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – June 2018

(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 55.0 in June, up from 53.2 in May, to signal a strong and faster pace of improvement in the Australian goods-producing sector. Growth has been recorded in each month since data collection began in May 2016.

Summary

	PMI	Interpretation
Jun-18	55.0	Expansion, faster rate of growth
May-18	53.2	Expansion, slower rate of growth

A sharp expansion in new orders was observed in June, with almost one-third of the survey panel recording greater new sales. New contract wins and improved demand from abroad were among the reasons cited for growth of order books. Exports expanded at a similarly-marked rate that was the quickest in four months. New business from Asian markets, particularly China, Indonesia and the Philippines were noted by panellists. Buoyed by these trends in demand, future output expectations were strongly positive in June.

Amid robust sales, production was raised. That said, although the rate of increase quickened and was strong, it remained below its average. To cope with higher workloads, additional staff were hired to boost operating capacities. Nonetheless, output capabilities were tested, as evidenced by the quickest rise in backlogs of work since January.

Capacity issues across the supply chain were also apparent, with average input delivery times lengthening to the greatest extent in five months. Worsening vendor performance was attributed to material shortages and strong input demand.

Panellists indicated that suppliers raised input prices further during June, with commodity prices, in particular metals, driving up cost burdens. The rate of inflation was sharp and only slightly weaker than May's survey high. Strong demand enabled firms to share greater operating expenses with their clients, with output prices rising sharply by historical standards.

Comment

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

"The Australian manufacturing sector moved through the second quarter at a decent pace. And the leading indicators suggest the positive manufacturing momentum is set to continue."

Mr Blythe, added:

"The PMI details have settled into a consistent picture. The backlog of work is uncomfortably high, delivery times are lengthening and some demand is being met by running down stocks. The positive spinoff is a solid labour demand. The ongoing risk is rising input costs that a strong economy is allowing to flow through to output prices."

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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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