

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

Manufacturing sector expands but at slower rate.

Key findings

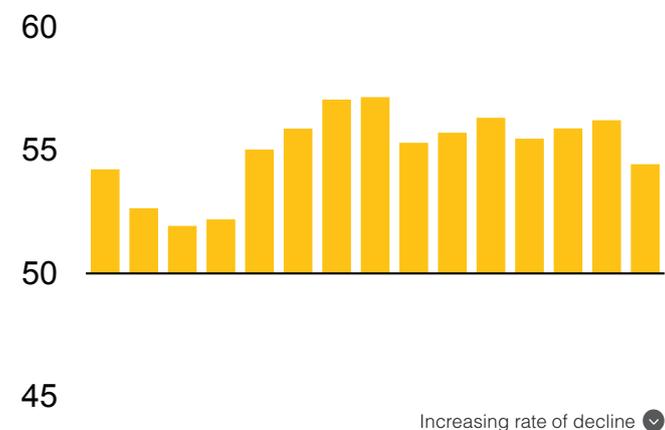
Australia's manufacturing sector expanded markedly in July, albeit at a slower pace compared to recent months. Output, new orders and employment all rose at weaker rates, although companies retained a high degree of confidence that growth will be sustained over the coming year. Amid reports of suppliers passing on higher raw material prices, input costs continued to rise markedly and led to another round of output charge inflation.

Commonwealth Bank Manufacturing PMI[®]

May 2016 – July 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 54.4 during July. Down from a reading of 56.2 in June, the index subsequently pointed to the slowest improvement in manufacturing sector operating conditions since last August. Readings above 50.0 signal growth, while those below 50.0 indicate contraction. Growth has been signalled by the index in each of the 15 months that data have been collected.

Summary

	PMI	Interpretation
Jul-17	54.4	Expansion, slower rate of growth
Jun-17	56.2	Expansion, faster rate of growth

Manufacturing production continued to rise in July and remained a key driver of overall sector growth. Latest data showed that the rate of expansion was marked, albeit down noticeably to the weakest since last August. This in part reflected a similar slowdown in the rate at which new orders were won, with the latest data showing total new order books improving markedly but to the weakest degree for 11 months.

Nonetheless manufacturers continued to report positive economic conditions and market activity, both at home and abroad. New export orders again rose sharply, with demand up from a host of markets across Asia, Europe and North America.

Moreover, manufacturers are confident that growth will be sustained, with around two-thirds forecasting higher output over the next year. This helped to underpin recruitment, with employment continuing to rise in July albeit to the weakest degree in the past 11 months. Meanwhile, increased productive capacity restricted backlog accumulation, although growth in work outstanding was still registered for the twelfth successive month.

Projected increases in orders and production helped to underpin further growth in purchasing activity and led to a rise in stocks of inputs for the thirteenth successive month. Stronger global demand for inputs led, however, to another deterioration in vendor delivery times and pushed up manufacturers' input costs. Average output charges also rose, and at a stronger rate.

Comment

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

"While the September quarter has kicked off at a slightly slower pace than seen in the June quarter, the manufacturing sector remains comfortably in expansion territory. The lift in new export orders is an encouraging sign that Australia is benefiting from the global recovery now underway."

Mr Blythe, added:

"The deterioration in vendor delivery times and the ongoing expansion in backlogs of work is a timely reminder of the need for Australian business to lift capex. While inflation pressures in Australia remain very tame, the lift in input prices and reports from panellists about higher raw material prices and energy prices point to some stirring at the front end of the pricing chain."

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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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