

News Release

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Judo Bank Australia Manufacturing PMI[®] Manufacturing PMI eases to 50.0 though business confidence improves

Key findings

Output and new orders continue to decline in January

Selling price inflation eases further despite rising costs

Business confidence climbs to five-month high

The expansion of Australia's manufacturing sector stalled at the start of 2023. Both demand and output contracted, whilst lower new orders led to a reduction in buying activity. Firms nonetheless continued to hire at a solid rate. Meanwhile, selling price inflation eased as pricing power shifted away from manufacturers, but firms remained broadly optimistic about output in the next 12 months.

The headline seasonally adjusted S&P Global Australia Manufacturing Purchasing Manager's Index™ (PMI[®]) posted 50.0 in January, down from 50.2 in December 2022, to indicate no change on the previous month for the manufacturing sector at the start of the year. This also marked the conclusion of a 31-month growth streak.

Demand for Australian manufactured goods shrank for a second consecutive month in January and at the fastest rate in a year, leading to lower manufacturing production. According to panellists, higher inflation and interest rates caused clients to pare back new orders at the start of the new year. This was prevalent abroad as well, with new export orders similarly shrinking for a second successive month, albeit at a marginal rate. As a result of lower demand and manufacturers working through existing orders, the level of work outstanding fell for a second straight month in January.

Firms also reduced their buying activity in line with the absence of demand growth and due to lower production activities at the start of the year. That said, pre-production inventory holdings rose in January with firms opting to accumulate safety stock as lead times lengthened due to shipping and manpower constraints. Stocks of finished goods similarly expanded in January, though a lack of demand was also reported by panellists to have contributed to the rise in level of post-production inventory.

Meanwhile employment levels rose in the manufacturing sector at an above-average pace with firms continuing to expand their workforce capacity to address persistent manpower constraints and in anticipation of further production growth. Indeed, firms were generally optimistic that output will continue to expand in the next 12 months and the level of business confidence climbed to the highest since last August.

Finally, price pressures persisted for Australian manufacturers as input cost inflation inched up from the end of 2022. Higher raw material, transport and labour costs were listed by panellists to have led to the hike in overall input costs. That said, selling price inflation eased to the softest in almost two years as firms passed on higher costs at a slower rate amid weaker demand conditions.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The January PMI report highlights some key trends impacting the Australian manufacturing sector in early 2023.

"Firstly, activity is slowing down with both output and new orders continuing to fall - both are now below the 50 mark. There has been a gradual softening of manufacturing activity over the final months of 2022 which looks set to continue in early 2023. Business remains optimistic about future economic activity which suggests the current slowdown will be mild.

"The second issue is supply chain normalisation. Inventories, the backlog of work and supplier delivery times, have all returned to what would have been regarded as normal levels prior to the pandemic after three years of stresses and strains. For most manufacturers supply chain operations have all but normalised in early 2023.

"Despite the slowdown in activity labour demand remains strong, with the January result rising well above the 50 level. Labour demand has moderated from the very strong levels seen in 2021 and early 2022. The January employment reading rose and is at a level historically consistent with an expanding manufacturing workforce. This is consistent with the current slowdown in manufacturing activity being mild.

"Finally, we are seeing a moderation in price pressures in early 2023 consistent with the view that inflation has peaked in late 2022. Inflation pressures remain elevated and well above a level consistent with the RBA's 2% to 3% inflation target. We will need to see further declines in the price indicators in 2023 to be comfortable that inflation is returning to the central bank's target.

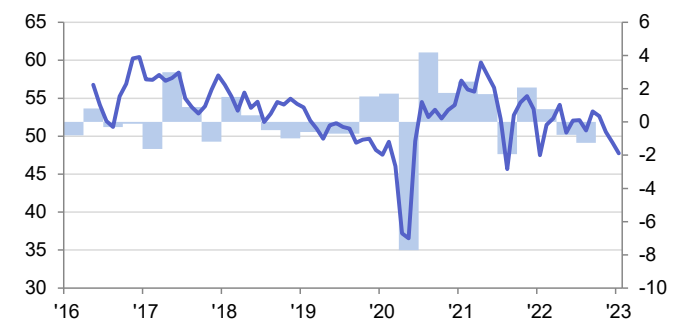
"Australia's manufacturing sector is on track for a soft landing in 2023, while the operating environment is quickly returning to normal following three years of pandemic induced disruption."

Judo Bank Australia Manufacturing PMI
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.
Data were collected 11-25 January 2023.

Australia Manufacturing PMI Output Index
sa, >50 = growth since previous month



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

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Survey methodology

The Judo Bank Australia Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 2016.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Flash vs. final data

Since May 2016 the average difference between final and flash Services PMI values is 0.0 (0.6 in absolute terms).

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.