News Release

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Judo Bank Australia Manufacturing PMI®

Manufacturing sector downturn extends to June

Key findings

New orders and production decline at accelerated rates

Job shedding returns to the manufacturing sector

Inflation rates soften

The deterioration in manufacturing conditions accelerated in June, according to the latest PMI® data from Judo Bank. A sharp fall in new orders led to production declining at the fastest pace in three months. Australian manufacturers therefore lowered their employment levels and cut back on their purchasing activity. Inventory levels fell in tandem. While lead times continued to lengthen, the rates of input cost and output price inflation eased in June. Optimism about the future also declined.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 47.2 in June, down from 49.7 in May. This indicated a fifth successive monthly deterioration in manufacturing sector conditions and at the fastest pace since May 2020.

Manufacturing production contracted in June amid fewer new orders placed with Australian goods producers. According to panellists, elevated interest rates and soft market conditions underpinned the latest fall in sales and demand. The pace at which new orders and production declined were both the fastest in three months and especially steep in the case of orders. The fall in total sales appeared to be centred on the domestic market as export orders were broadly unchanged in June.

As a result of the reduction in new work, capacity pressures further eased for Australian manufacturers – as signalled by another steep reduction in backlogs of work. Job shedding also returned to the Australian manufacturing sector, after employment levels rose only slightly in May. The pace at which employment levels fell in June was solid and the fastest since March.

Meanwhile purchasing levels also fell in line with lower orders and production, with buying activity declining at an even faster pace. Australian goods producers indicated reluctance in holding additional inventory during a period of falling demand. Both stocks of purchases and finished goods shrank in the latest survey period.

Turning to prices, average input costs continued to increase in June, attributed to higher raw material, currency conversion and transport related costs. Supply-side shortages also played a role in raising prices, with lead times lengthening at a sharp pace, as vendors faced constraints with shipping delays and supply shortages. That said, the overall rate of input price inflation eased from May, falling further below the series average. In turn, goods producers raised selling prices at a less pronounced rate, the slowest in three months.

Finally, sentiment in the Australian manufacturing sector remained positive in June, as signalled by an above 50.0 print of the Future Output Index. However, the level of confidence eased to a seven-month low as concerns gathered over rising costs and competition dampening sales.

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"Following two months of improvement, the manufacturing sector's key activity indicators have softened to the cyclical lows seen earlier in the year. Manufacturers are marginally scaling back production through reduced headcounts and inventories in response to prolonged difficult trading conditions in the sector.

"Despite a four-month upward trend that brought the manufacturing output index slightly under the neutral level, the index dipped in June to the lowest in three months and was slightly lower than the early flash reading. The manufacturing new orders index has also returned to cyclical lows through June.

"Manufacturing activity readings have fluctuated between 45 and 50 since October 2023, indicating a sustained but not worsening contraction amidst ongoing cost-of-living pressures.

"With business activity slowing over the month, the employment index dipped back below the neutral level. Manufacturers, on average, have been gradually reducing headcounts throughout 2024.

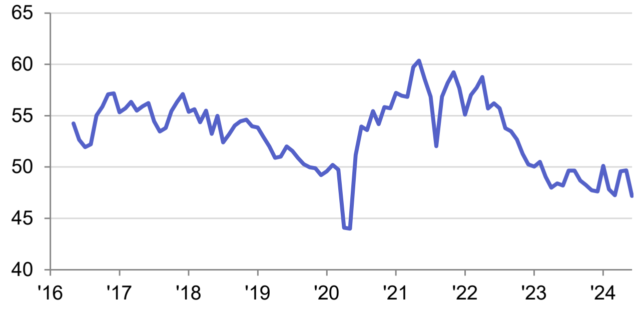
"After stabilising at pre-pandemic levels in 2023, margin pressures in the manufacturing sector appear to be picking up. The input price index climbed significantly to 58.4 in June, which, while slightly down on the prior month, is above the average reading of 56.0 seen over the first four months of the year. The rise in input price pressures doesn't appear to have been passed onto consumers, with the output price index remaining subdued at cyclical lows in June.

"In line with rising margin pressure and ongoing weakness in demand, manufacturers are reducing inventory levels, suggesting growing caution amongst manufacturers about future business conditions. Stock of purchases index fell to the lowest level since 2020 in June.

"The May Manufacturing PMI results water down the likelihood of the predicted manufacturing rebound suggested in the May PMI. Despite the soft June results, some relief is still anticipated for consumer goods manufacturers through 2024-25 as households benefit from tax cuts and government cost-of-living measures from July 1."

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 07-24 June 2024.

Australia Manufacturing PMI Output Index

Manufacturing production

sa, >50 = growth since previous month

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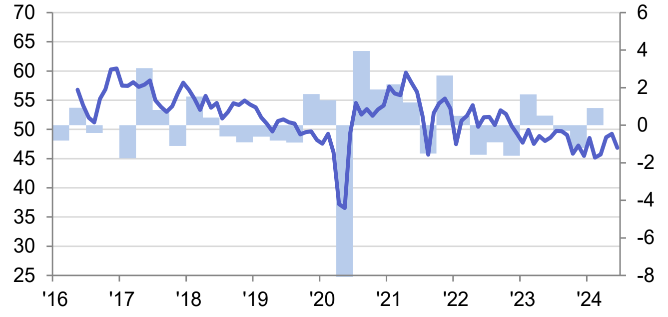

Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

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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@spglobal.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).

About Judo Bank

Judo Bank is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and the first fully licensed Australian bank to IPO in 25 years. Judo was founded by a small group of experienced lending professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led lending model, which brings back the craft of relationship banking, is enabled by its legacy free, digital, cloud-based technology architecture. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital. www.judo.bank

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html