News Release

Embargoed until 0900 AEST 1 August 2024

Judo Bank Australia Manufacturing PMI®

Sharpest fall in employment in over four years

Key findings

Manufacturing output decline accelerates amid falling new orders

Export orders contract at fastest pace in four years

Job shedding unfolds at quickest rate since June 2020

Australia's manufacturing sector conditions further deteriorated at the start of the second half of 2024, according to the latest PMI® data from Judo Bank. A reduction in new order inflows, including the fastest reduction in export orders in four years, led to output declining at a solid pace in July. As a result, employment, purchasing and inventory levels all fell. Moreover, the drop in staffing levels was the most pronounced since June 2020.

Meanwhile, supply constraints persisted and cost pressures intensified, but sentiment in the Australian manufacturing sector improved in the latest survey period.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 47.5 in July, up from 47.2 in June. This indicated a sixth successive monthly deterioration in manufacturing sector conditions, albeit at a slightly slower pace than June.

Manufacturing production contracted at the fastest pace in four months, underpinned by a reduction of new orders in July. Elevated interest rates and softening demand conditions were mentioned by panellists as reasons for the downturn in demand. Likewise for export orders, a deterioration of foreign demand conditions and intensifying competition underpinned lower inflows of new work from abroad. The rate of contraction in overall new orders eased from June, in contrast to export orders falling at the fastest pace in four years.

Employment levels declined for a second successive month in July, attributed partly to redundancies amid falling new work. The rate of job shedding was solid and the fastest in just over four years.

Concurrently, purchasing activity contracted in July alongside reductions in both new work inflows and production. This led to another sharp fall in stocks of purchases, with anecdotal evidence further revealing that Australian manufacturers were hesitant to hold additional stocks during a period of falling demand.

Meanwhile, lead times continued to lengthen for Australian manufacturers. The worsening of port congestions around Singapore and shipping disruptions in the Red Sea region resulted in greater shipping delays in July according to panellists. Furthermore, transport prices increased, which alongside higher raw material prices led input cost inflation to intensify in July. The rate of output price inflation was unchanged from June, however, and well below the series average.

Overall, sentiment in the Australian manufacturing sector remained optimistic. Despite confidence levels being amongst the lowest in the year-to-date, sentiment improved from June with firms hopeful that better economic conditions in the year ahead can help to drive sales.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Judo Bank Australian Manufacturing PMI rose in July but remains at weak levels consistent with little growth in the sector. Given that manufacturing has a small industry share in Australia it is not clear that we can infer much about the performance of the broader economy from these results.

"The soft result for July confirms that Australian manufacturing industries remain in a cyclical slowdown with the signs of recovery in March and April disappearing in recent months.

"Output and new orders are both weak, back to levels seen at the cyclical low point late last year. There are also indications of genuine caution from Australia's manufacturers with the inventory holdings of both inputs into production and final goods at cyclical low points.

"The Future Output Index improved a little in July and is strongly in positive territory above the 60 index level but relative to history, this measure of confidence is subdued.

"The employment index remains below 50 level pointing to a contraction in staff numbers in Australian manufacturing. While this is consistent with cyclical weakness in the sector, it could also be pointing to structural trends such as increased use of labour-saving technology.

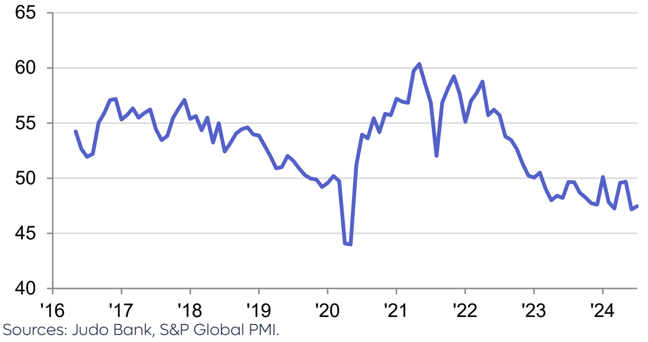
"Input prices were stable in July and although elevated well above the 50 index level are near the lowest point seen in recent years. Accordingly, the output index, which should provide some insight in goods price inflation is relatively low and consistent with the RBA's 2% to 3% inflation target.

"The backlog of work and supplier delivery times are also weak and may reflect logistical issues in the global manufacturing supply chain. Considering the current weakness in manufacturing activity, this all points to profit pressures in the sector.

"It is not clear that Australia's manufacturing sector is in recession, but it is struggling to grow. The macroeconomic implications of these recent outcomes are limited given that manufacturing makes up a very small share of Australian economic activity. As the broader economy navigates a difficult environment it is clear that Australia's manufacturing sector is not expanding and the elusive revival of Australian manufacturing industries may have to wait for another day, or so it seems."

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 10-25 July 2024.

Australia Manufacturing PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

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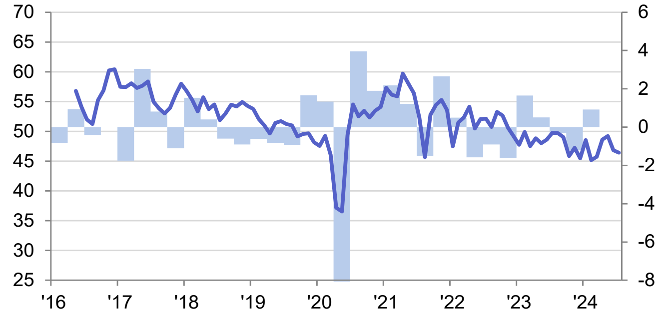

Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.

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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