

# News Release

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## Judo Bank Australia Manufacturing PMI® Manufacturing sector contraction remains marginal

### Key findings

**New orders fall only modestly as exports return to growth**

**Employment levels rise for the first time in seven months**

**Acceleration of inflation rates signalled by May survey**

Manufacturing operating conditions continued to deteriorate slightly in May, according to the latest PMI® data from Judo Bank. Manufacturing production fell at a marginal pace as new orders declined to a softer degree. New export orders notably rose for the first time since late 2022. This supported a renewed rise in employment, while firms also accumulated more finished goods. Pre-production stock holdings continued to fall, however, as optimism among manufacturers softened. Meanwhile, price pressures intensified.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 49.7 in May, up from 49.6 in April. This indicated a fourth successive monthly deterioration in manufacturing sector conditions, but at the softest pace in the current sequence.

Manufacturing production and new orders in Australia both declined at slower rates in May, the softest in nine and ten months respectively. According to survey respondents, higher prices and subdued market conditions negatively affected demand, albeit to a smaller degree compared with April. In fact, new export orders rose for the first time since November 2022, with panellists reporting higher new work inflows from clients in the US, Europe and Asia.

With the downturn easing and an improvement in export conditions signalled, Australian manufacturers raised their workforce capacity in May. This marked the first increase in headcounts since last October, albeit only marginally. Firms were able to work through their backlogged orders at a sharper pace with more staff, thereby extending the sequence of depletion to one-and-a-half years.

Purchasing activity meanwhile contracted again in May, in line with the fall in overall new orders and production. Given the reduction in buying activity and reluctance to hold additional raw material and semi-finished items among manufacturers, stocks of purchases also fell in May. In contrast, Australia manufacturers accumulated finished goods in May following four successive months of depletion.

Lead times lengthened again in the Australian manufacturing sector, attributed to disruptions in the Red Sea and supply shortages in May. Despite lead times lengthening at a slower pace in May, transport costs were reported to have risen again, which, alongside higher raw material and financing costs, led to another increase in average input prices. Australian manufacturers opted to share their rising cost burdens with their clients, lifting their charges more quickly in May. The rates of input cost and output price inflation were at the highest in 18 and 14 months respectively.

Overall sentiment in the Australian manufacturing sector remained positive in May, with firms expecting better market conditions, new product launches and marketing efforts to drive sales in the year ahead. The level of confidence eased to a six-month low, however, amid concerns over heightened competition and rising prices.

### Comment

Matthew De Pasquale, Economist at Judo Bank said:

“The manufacturing sector's key activity indicators continued to improve through May, suggesting that the worst of the manufacturing slowdown may be behind us.

“Although the manufacturing output index remained just below the neutral level in May, it has shown a steady increase for three consecutive months since its cyclical low point in February. This positive trend is mirrored in the new orders, which have also seen signs of improvement, increasing for two consecutive months.

“With the slowdown in activity coming to a halt, we are starting to see an improvement in the sector's employment indicator. The manufacturing employment index surpassed the neutral 50.0 level in April for the first time in seven months, suggesting that manufacturers are no longer shedding labour.

“The pick-up in manufacturing input and output price pressures is reflective of trends seen in recent official inflation data. The input price index rose to 60.0, the highest level since November 2022, and the output price index, representing inflation of consumer prices, rose to its highest reading in over a year.

“The increase in input prices among manufacturers and their ability to transfer these costs to consumers could be interpreted as improving business conditions through April. While this upswing could be influenced by month-to-month data volatility, official inflation data for April suggests that tradable goods disinflation may have reached its limit, and we could be witnessing a potential return of tradable goods inflation to pre-pandemic averages.

“Unlike the services sector, margin pressure experienced by Australia's manufacturers appears to resemble levels seen heading into the pandemic, with the difference between input and output price pressures floating at its long-term average.

“Despite the recovery in activity levels, the future output index, a proxy for business confidence, remains historically weak for the sector and has shown little improvement over the past six months.

“The May Manufacturing PMI results point to improving conditions for Australia's manufacturers over the year ahead. With real household disposable incomes rising in the second half of 2024 and global good price inflation stabilising, manufacturer conditions will likely continue to improve throughout the year.”

**Judo Bank Australia Manufacturing PMI**

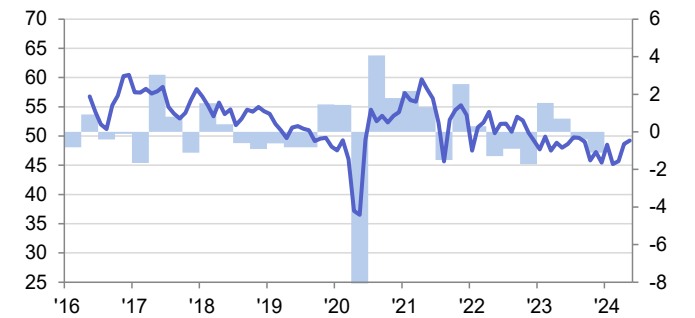
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.  
Data were collected 09-24 May 2024.

**Australia Manufacturing PMI Output Index**

sa, >50 = growth since previous month



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](mailto: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).

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