

News Release

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Judo Bank Australia Manufacturing PMI®

Australian manufacturing sector downturn continues in June

Key findings

New orders and output remain in contraction

Lead times shorten for fourth consecutive month

Price pressures further ease

Australia's manufacturing sector remained in a downturn according to the latest PMI® data from Judo Bank. A sharper contraction in new orders led to lower production at the end of the second quarter. In turn, purchasing activity shrank alongside a reduction in inventories while employment growth headed further towards stagnation. That said, supply constraints again eased while inflationary pressures receded. Overall sentiment remained positive, but firms grew more cautious about the outlook.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 48.2 in June, down from 48.4 in May. The latest reading signalled a fourth monthly decline in manufacturing activity since the start of 2023, with the latest fall being moderate.

Incoming new orders for Australian manufactured goods declined again in June on the back of weak underlying demand and pressure on client budgets from higher interest rates. The pace of decline was sharp and amongst the fastest in the current seven-month sequence of contraction. Foreign sales likewise fell and at a pace comparable to total new orders. As a result of the fall in overall new work, lower output was recorded within the manufacturing sector at mid-year. Firms were also able to clear their backlogs at one of the fastest rates on record in June.

Concurrently, buying activity was reduced in tandem with the fall in order book volumes. This led to lower levels of pre-production inventory holdings, though firms were also keen to reduce their stocks in the current climate of deteriorating demand. Caution with regards to holding additional finished goods was also indicated by panellists, which contributed to a fourth successive monthly fall in post-production inventory levels.

Employment growth was sustained in June, however. Manufacturers continued hiring to fulfil ongoing production requirements, extending the current sequence of job growth to over two-and-a-half years. However, the rate of job creation was marginal and the slowest in the current sequence. Some firms opted to reduce their workforce numbers in line with the poor trend in new orders.

Meanwhile, supply constraints as measured by changes in vendor delivery times continued to ease for Australian manufacturers amid reduced goods demand and activity. Lead times have now shortened for four consecutive months.

Price pressures also softened in June with input cost inflation sinking to the lowest in nearly three years. Panellists widely reported slower raw material price increases. As a result, output prices rose only modestly and at the slowest pace since September 2020. Pricing power also faced downward pressure from increased marketplace competition.

Finally, sentiment within the manufacturing sector remained positive at the end of the second quarter. Firms were generally hopeful that sales will improve. That said, the level of business confidence slipped from May to among the lowest since data collection began for the survey (May 2016). Concerns over the economic outlook and the adverse impact from higher interest rates were reported as reasons to be downbeat.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australia's manufacturing sector is on track for a soft landing with further evidence in June of soft activity, weakness in new orders and easing price pressures. The overall manufacturing PMI dipped in June to 48.2, a level that is historically associated with a cyclical slowdown in activity, but is still well above recession readings, which typically see PMI readings below 42.

"New orders are particularly soft in recent months falling to a new low point in June. Exports are also soft, having spent the first half of 2023 below the 50 level, consistent with an ongoing slowdown in global manufacturing activity.

"The employment index is also on a clear softening trend, although it remains above the 50.0 neutral level suggesting that not only are manufacturers potentially hoarding labour, but are looking for new staff despite the slowdown in activity.

"Encouragingly, there are few signs of imbalances in the manufacturing sector that could lead to a deeper downturn. Not only are firms hoarding labour through this soft patch in activity, but inventory levels also remain low, of both inputs and finished goods. Furthermore, expectations for future activity remain upbeat.

"The only concerning feature of the latest report is a further fall in the backlog of work across the industry. At 41.7, this index is at the lowest level in three years and suggests that firms have a very weak pipeline of work, which could leave them vulnerable to a further deterioration in new demand.

"The most welcome feature of the latest PMI report for Australian manufacturing is a further easing of the price indicators. Both input and output price indexes fell to cycle lows. Indeed, the latest input price index is one of the lowest in the past eight years, pointing to some mild deflationary pulse entering the manufacturing pipeline.

"We have seen a full normalisation of manufacturing supply chains in 2023, which combined with a cyclical slowdown in the demand for manufactured goods, is nullifying inflationary pressures on the goods side the economy.

"For central banks, it is services inflation that is of most concern, but the emergence of deflationary pressures across the goods sector will help take pressure off the cost of living and inflation expectations.

"The latest results suggest the RBA may have some breathing space on interest rates and could afford to wait for more information at the July Board meeting before taking any further actions to tighten domestic monetary policy."

Judo Bank Australia Manufacturing PMI

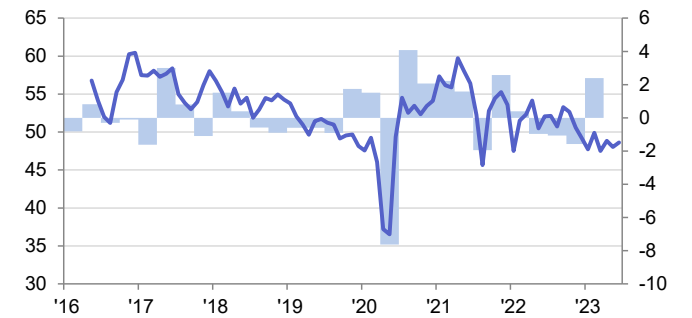
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-26 June 2023.

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@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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