

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector conditions stabilise in January

Key findings

Slower declines in new orders and output

Lead times lengthen at sharpest pace since August 2022

Price pressures ease at the start of 2024

Australia's manufacturing sector conditions stabilised at the start of 2024, according to the latest PMI® data from Judo Bank. While incoming new orders and production remained in contraction territory, the rates of decline eased to modest levels in January. Job shedding similarly occurred at a slower rate, and there was a slower reduction in buying activity. Notably, lead times lengthened sharply with Red Sea disruptions, but price pressures remained subdued.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 50.1 in January, up from 47.6 in December. The latest reading signalled that manufacturing sector conditions were broadly unchanged at the start of 2024 having deteriorated in the prior ten months.

Manufacturing output fell at a shallower rate in the opening month of the year, supported by a slower decline in new orders, including export orders. Broadly, soft economic conditions and high interest rates continued to dampen demand for goods according to panellists, but to a smaller extent in the latest survey period.

As a result of the reduction in new work intakes, employment levels continued to fall across the Australian manufacturing sector, albeit at a marginal pace. Reduced capacity requirements led to the non-replacement of leavers and in some cases, redundancies, according to panellists. Indeed, there was a fourteenth successive decline in the level of outstanding work, with the pace of contraction historically sharp.

Meanwhile, purchasing activity contracted in line with lower production in January, though likewise at a slower pace. This led to reduced input inventory holdings among some manufacturers, though lower usage for production at other firms resulted in the aggregate level of stocks of purchases staying unchanged at the start of the year. In contrast, stocks of finished goods fell for the tenth time in 11 months as manufacturers lowered their post-production inventory holdings amid a lack of demand growth.

Supply issues surfaced in the latest survey period with lead times lengthening at the fastest pace in seventeen months and one that was historically elevated. Supply and transportation constraints, stemming from domestic port issues and Red Sea shipping disruptions, were often mentioned by panellists as reasons for the worsening of vendor performance.

Despite increased supply delays, price pressures remained subdued across the Australian manufacturing sector. Higher raw material, shipping and energy costs contributed to average input prices rising again in January but at the softest pace since July 2023. In turn, selling price inflation eased further below the series average to signal muted inflation.

Finally, overall sentiment improved in the Australian manufacturing sector. The level of business confidence climbed to the highest since August 2023 with firms growing more hopeful that sales can pick up in the 12 months ahead as economic conditions improve.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The January Australian Manufacturing PMI report suggests that the Australian economy remains on a soft landing trajectory. Both the output index and new orders rose in the month. Over the past two months, the rise in the new orders index is the strongest in more than 18 months.

"While manufacturing activity was much weaker than service sector activity in late 2023, the jump in output and new orders in January has eased concerns that a manufacturing sector recession was developing. Business confidence also improved among manufacturers in January, with the future output index reaching its highest level since last August.

"We always need to be careful not to put too much emphasis on a single monthly data point, although the new orders index has risen in each of the last two months. Further consolidation in the activity and new orders in February would lend weight to the view that Australia's manufacturing sector has turned the corner in late 2023, which could make way for a cyclical recovery in 2024.

"Price indicators declined in January, suggesting further disinflation over the first half of 2024. Notably, the manufacturing input price index remains on the downtrend despite global and domestic shipping disruptions.

"Supplier delivery times extended in January to the lowest index reading since August 2022. It appears that the disruptions to shipping near the Suez Canal and the local wharf dispute are impacting domestic supply chains.

"At this stage, the impacts are much less than seen in the pandemic, and businesses are absorbing the costs associated with higher shipping costs - if the fall in the input price index in January is anything to go by.

"A reasonably reliable relationship exists between the PMI Suppliers' Delivery Times index and goods inflation in Australia. The recent fall in the delivery times index suggests that the disinflation of goods prices over the past 18 months has run its course.

"The current Suppliers' Delivery Times index reading of 41.1 is broadly consistent with goods price inflation of around 4%, which is roughly where goods inflation was in November. The issue is that most forecasters had been expecting further goods price disinflation, if not outright deflation, as part of their overall Australian inflation outlook.

"This suggests that if supply chain disruptions in the shipping sector are sustained over the months ahead, the inflation outlook could be reassessed as goods price inflation proves to be stickier than previously thought.

"Overall, the first read on Australian manufacturing activity in 2024 shows a welcome improvement in activity and confidence, which points to the potential for a cyclical recovery over the course of 2024."

Judo Bank Australia Manufacturing PMI

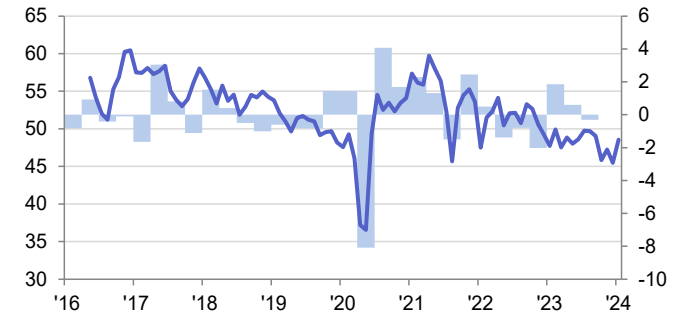
sa, >50 = improvement since previous month



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

Contact

Warren Hogan
Chief Economic Advisor
Judo Bank
T: +61 414 498 675
warren.hogan@judo.bank

Casey Van Liessum
Director, Corporate Affairs
Judo Bank
T: +61 403 119 671
casey.vanliessum@judo.bank

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
T: +65 6439 6022
jingyi.pan@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82 2 6001 3128
sungha.park@spglobal.com

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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).

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