

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector contracts in February

Key findings

Output declines at quickest pace since May 2020

Job shedding accelerates

Inflation rates rise

Australia's manufacturing sector conditions deteriorated in February, according to the latest PMI® data from Judo Bank. A quicker reduction in new orders led to sharper falls in output and volumes of outstanding business. Buying activity and employment levels also declined as a result. Meanwhile supply constraints worsened with lead times lengthening while average input costs rose at a quicker rate. Overall business confidence eased.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 47.8 in February, down from 50.1 in January. This signalled a moderate deterioration in manufacturing sector conditions following a stabilisation at the start of the year.

Central to the latest downturn in the Australian manufacturing sector was worsening demand conditions. Incoming new orders fell at a sharp pace that was the fastest in three months. Export orders also declined at an accelerated rate compared with January. Anecdotal evidence revealed that soft domestic and external conditions, coupled with elevated interest rates and inflation, dampened demand in the latest survey period.

As a result of reduced new work intakes, manufacturing production levels fell in February and at the fastest pace outside of the pandemic period. This contributed to a reduction in finished goods holdings, despite firms working through their outstanding business at a survey record rate amid a lack of new work inflows.

Job shedding was sustained for a fourth straight month in the latest survey period and at a more pronounced rate compared to January. Australian manufacturers reported reducing their headcounts as the volume of new work fell.

Purchasing levels also dipped in line with lower new work intakes and production. That said, stocks of purchases rose marginally across the Australian manufacturing sector with some firms indicating they had accumulated safety stocks as supply delays increased. Indeed, average lead times lengthened for an eighth consecutive month and at a substantial rate.

In addition to increased supply delays, price pressures rose in the Australian manufacturing sector midway into the first quarter. Higher input material, shipping and energy costs led to average input prices rising at a quicker rate in February. In turn, Australian manufacturers shared their increased cost burdens with their clients, leading to selling prices rising at the fastest pace since September 2023. Rates of input cost and output price inflation were below their respective series averages, however.

Finally, sentiment in the Australian manufacturing sector remained positive with the level of confidence still elevated. Firms were generally hopeful that sales can rise in the year ahead. That said, concerns over increased competition and inflation meant optimism dipped slightly since January.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Judo Bank Manufacturing PMI dipped in February back to levels seen over the second half of 2023 after what appears to be a one-off bounce in January. While the Manufacturing PMI points to an ongoing slowdown in the sector, it should be noted that manufacturing activity indexes remain well above levels historically associated with a recession for the industry or the broader economy.

"Output fell back to cyclical lows in February following a bounce higher in January. New orders and employment were also softer in February, suggesting that the bounce in January was a one-off. The February activity indicators suggest that Australia's manufacturers remain in a soft patch at the start of 2024.

"The demand for labour has moved into contractionary territory over the last four months and remains near the recent low point. While the supply of labour due to surging net inward migration may have taken some pressure off labour shortages, the weakness in the manufacturing employment index is consistent with the demand for manufacturing sector labour weakening over the past six months.

"There is evidence that supply chain disruptions are impacting the Australian manufacturing sector. Supplier delivery times remained stretched in February, which suggests that the re-routing of ships around Africa is impacting Australian industry.

"Input prices also rose in February, reflecting higher shipping and logistics costs. Higher labour costs will also likely maintain upward pressure on business costs early in 2024. Input costs are not at alarming levels, like we saw in the pandemic, but remain higher than what was considered normal prior to the pandemic.

"Output price pressures also rose through February. While the recent upward trend does not bode well for the economy's disinflation trend, the output prices index is not at historically high levels. Furthermore, domestic manufacturing prices will exert little influence on the overall inflation trend in the Australian economy.

"The good news is that there appears to be little inventory overhang across the sector, with the stocks of inputs and finished goods at moderate levels. This certainly bodes well for a pickup in production should demand lift through 2024.

"There is also continued optimism about activity levels in 2024, with future work expected to be stronger over the year ahead.

"Australia's manufacturing sector is not growing, bringing into question the idea of a post-pandemic manufacturing revival. Over the past year, soft outcomes most likely reflect capacity constraints in Australia's construction sector (a major driver of domestic manufacturing) and the broader cyclical slowdown in the economy.

"It is too early to read these cyclical trends as a reason to doubt the revival of Australian manufacturing in the 2020s. Indeed, the sector looks to be in an excellent position to increase production should demand lift soon."

Judo Bank Australia Manufacturing PMI

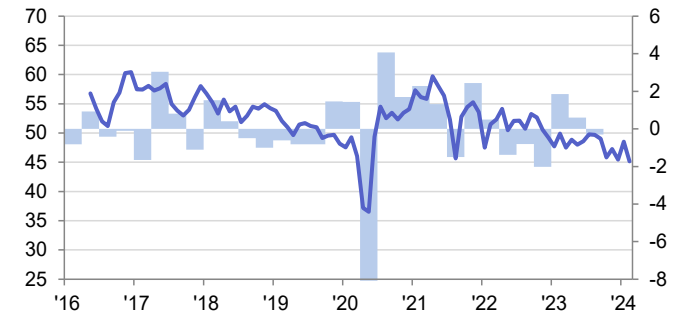
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-23 February 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.

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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