

News Release

Embargoed until 0900 AEST 1 October 2024

Judo Bank Australia Manufacturing PMI®

Manufacturing sector downturn deepens

Key findings

New orders and production fall at the fastest pace since May 2020

Stocks of purchases decline at second-fastest rate on record

Price pressures recede slightly

Australia's manufacturing sector conditions further deteriorated at the end of the third quarter of 2024, according to the latest PMI® data from Judo Bank. Incoming new orders and production both fell at the fastest pace since May 2020, while export orders also declined solidly. This resulted in further reductions in workloads and staffing levels. Meanwhile purchasing activity and inventory levels also contracted.

Average input prices continued to increase, but with the rate of inflation easing in September. In turn, firms raised selling prices at a slower rate in line with the trend for input costs, but also to try and help boost sales as confidence about the future eased.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 46.7 in September, down from 48.5 in August. This indicated an eighth successive monthly deterioration of manufacturing conditions and to the most pronounced degree since May 2020.

Central to the deepening of the manufacturing sector downturn was a decline in manufacturing new sales. Incoming new orders for Australian manufactured goods fell at the fastest pace recorded outside of the pandemic period, attributed to the adverse impact of elevated interest rates and softening market conditions. This included export orders, which fell strongly amid deteriorating foreign demand conditions.

As a result, manufacturing output also contracted at a pace amongst the sharpest on record while the level of unfinished work also fell sharply in September. Australian manufacturers thereby lowered their staffing levels as workloads were reduced.

Purchasing activity contracted in line with the reduction in production and new work inflows. The slowdown in the replenishment of input stocks and caution about holding additional inventories during a time of falling demand resulted in stocks of purchases shrinking at the second fastest pace since data collection began in May 2016 (surpassed only by the decline of April 2020). Holdings of finished goods also declined in tandem.

Average input prices for Australian manufacturing firms rose again at the end of the third quarter. Survey respondents often mentioned higher raw material, shipping and energy costs as reasons for the increase. This was as lead times lengthened substantially in September owing to shipping delays and port congestions around the Red Sea region and Southeast Asia respectively. That said, the rate of input price inflation fell further below average in September. This enabled Australian manufacturers to raise selling prices at a slower rate in August, though firms also mentioned that they were motivated to do so as part of efforts to support dwindling sales.

Finally, sentiment in the Australian manufacturing sector remained positive in September with firms generally hopeful that better economic and geopolitical conditions in the year ahead can support demand. The level of confidence eased for the first time in three months, however, and remained well above the survey average.

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"The manufacturing sector has weakened to cyclical lows through September, with demand soft and business cost pressures remaining elevated.

"The Manufacturing PMI index, which reflects conditions facing manufacturers, has deteriorated to its lowest point since the survey began in 2016, outside the commencement of the pandemic. Both output and new orders have fallen well below the neutral 50 index reading. With the sector recording its eighth month in contraction, businesses have been gradually easing headcounts, with the manufacturing employment index averaging 47.9 over the past four months.

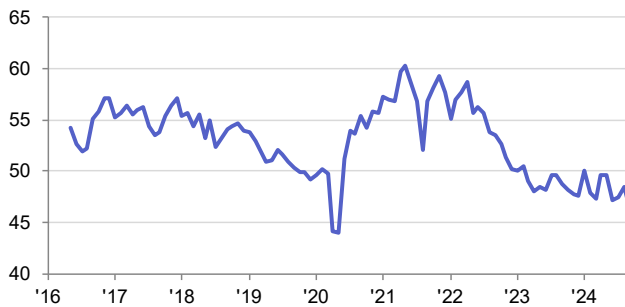
"Input and output price pressures in the sector differ notably from those in the rest of the economy, with both price indexes returning to their pre-pandemic averages. While it appears that growth in margin pressure has slowed to pre-pandemic levels, there has been little alleviation of the significant margin pressure experienced through the pandemic period, which continues to weigh on Australian manufacturers. Despite input price pressures being lower for the sector than the rest of the economy, supply chain issues remain a concern, with delivery times falling below pre-pandemic levels over the past three months.

"On average, business expectations for activity over the next 12 months remain optimistic, with the future activity index remaining above the neutral level. However there has been very little change or improvement in the readings over the past year, and the index remains almost 13 points below the pre-pandemic average.

"In summary, the manufacturers are facing difficult conditions in late 2024, impacted by the lack of growth in construction activity across the economy and soft consumer markets. While some improvement in activity may be experienced in the coming months driven by household stimulus and strong population growth, early signs suggest that subdued conditions will remain a challenge for the sector into 2025."

Judo Bank Australia Manufacturing PMI

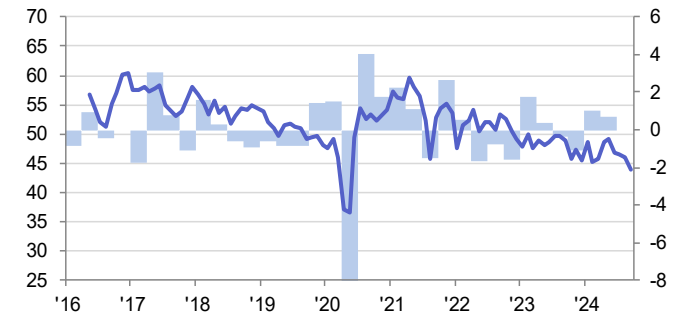
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 11-24 September 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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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