News Release

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Judo Bank Australia Manufacturing PMI®

Strong hiring activity drives improvement in sector performance during February

Key findings

Production steadies amid slower fall in new orders

Lead times lengthen at slowest pace on record

Price pressures ease with cost inflation at lowest in two years

The expansion of Australia's manufacturing sector resumed in February. Manufacturing output steadied amid a slower fall in new orders while firms also worked through their outstanding orders. Although manpower constraints persisted, leading to continued workforce expansion, the incidence of supply chain delays was the lowest on record and cost inflation weakened further.

The headline seasonally adjusted S&P Global Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 50.5 in February, up from the neutral level of 50.0 in January. This signalled an improvement in the health of the Australian manufacturing sector in February, albeit only marginally.

Manufacturing output was little changed during February, in part reflective of a slower, and only marginal, fall in new orders. Although firms reported that underlying market demand remained subdued, there were signs of some stability in product markets. This was especially the case for overseas demand: only a negligible decline in new export orders was registered. That said, given the continued lack of demand growth manufacturers also worked through their backlogs in February. Moreover, the rate at which backlogs were depleted was amongst the fastest in the survey history.

Firms also remained cautious with their buying activity, paring back their input purchases at a pace comparable to January. In turn, this limited any noticeable rise in input inventory holdings in February. In contrast, weak underlying sales volumes led to the accumulation of post-production inventories.

Meanwhile supply constraints showed signs of easing within the Australian manufacturing sector. The rate at which suppliers' delivery times lengthened was the weakest since data collection began for the survey (May 2016). Several panellists reported both an improvement in supply chain conditions and that softer demand had reduced pressure on vendors.

Input cost inflation fell to the lowest since December 2020 amid slower increases in raw material, energy and labour costs. Firms continued to share higher cost burdens with their clients, but similarly to a slower degree (the weakest since March 2021).

Manpower constraints remained a challenge for manufacturers and encouraged them to again increase workforce capacity at a solid pace in February. Employment levels overall rose at the fastest rate since last September.

Finally, overall sentiment within the Australian manufacturing sector stayed positive in February amid hopes of better sales in the coming 12 months. However, the level of business confidence eased markedly with firms remaining concerned over the interest rate and economic outlooks.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australian manufacturing activity has stabilised over the summer starting 2023 on a solid footing. Most activity indicators such as output and new orders are hovering around the neutral 50 level while employment and pricing indicators remain strong.

"New exports orders are creeping higher from a relatively soft starting point. It is early days, but Australian manufacturers might be starting to see increased demand from international markets, particularly China where the re-opening of the domestic economy is set to give economic activity a kick upwards over the first half of 2023.

"The latest Judo Bank Manufacturing PMI results suggests the Australian economy remains on track for a soft landing in 2023. None of the forward-looking indicators are pointing to recession. If anything, the recent stabilisation of the PMI and the output index suggests that the next shift in economic momentum for the Australian economy could just as easily be upwards as it could be for further slowing.

"The demand for labour within the Australian manufacturing sector remains strong in early 2023. Despite the slowdown in activity over the past year, manufacturers are still looking to expand their workforces into what is an extremely tight labour market.

"Price indicators also remain stubbornly elevated having stabilised at relatively high levels over the summer. The decline in input prices witnessed since the mid 2022 peak has all but come to an end over the three months to February 2023. Both input and output price indexes have stopped falling in any meaningful way. The current level of these indicators is consistent with overall inflation in Australia of around 4-5% in 2023, broadly in line with official forecasts.

"The latest PMI results support the notion that Australian economic activity, after slowing down over the second half of 2022, is holding up in early 2023. Strong labour demand and elevated price indicators are consistent with a further modest increase in interest rates over the next six months.

"We expect the RBA to increase the cash rate by 25bp at the March board meeting. Our central case forecast for the economy and interest rates assumes the RBA cash rate rising to between 4% and 4.5% later this year."

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month

Sources: Judo Bank, S&P Global.

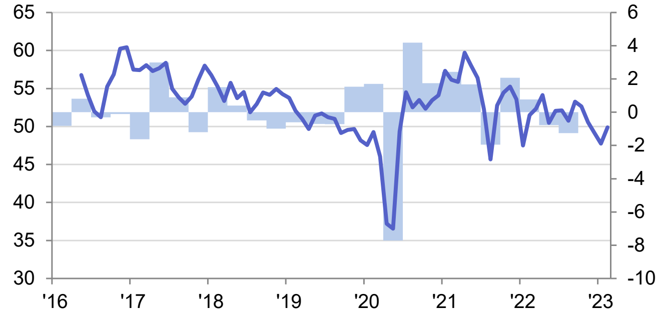
Data were collected 9-22 February 2023.

Australia Manufacturing PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%qr/qr



Sources: Judo Bank, S&P Global, Australian Bureau of Statistics.

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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).

About Judo Bank

Judo Bank is Australia's first purpose-built challenger bank for small and medium-sized businesses (SMEs) and the first fully licensed Australian bank to IPO in 25 years. Judo was founded by a small group of experienced lending professionals and its purpose is to be the most trusted SME business bank in Australia. The company's relationship-led lending model, which brings back the craft of relationship banking, is enabled by its legacy free, digital, cloud-based technology architecture. Lending products are originated and distributed through direct and third-party channels and are funded by deposits, wholesale debt and regulatory capital. www.judo.bank

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

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. ihsmarkit.com/products/pmi.html.