

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector contraction eases in October

Key findings

New orders and output decline at slower rates

Stocks of purchases fall at second-fastest rate on record

Job shedding sustained amid record reduction in work outstanding

Australia's manufacturing sector conditions continued to deteriorate in October, albeit at a reduced pace compared to September. Incoming new orders and production contracted at softer rates, while business confidence improved. Job shedding continued as capacity pressures eased amid a record reduction in backlogged work. Meanwhile, manufacturers were cautious with holding additional inventories, lowering both purchasing activity and inventories in October. Price pressures also remained subdued even as selling price inflation rose slightly.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 47.3 in October, up from 46.7 in September. This indicated a ninth successive monthly deterioration of manufacturing conditions. The rate of decline softened, however, and was moderate overall.

Subdued market conditions underpinned another reduction in new orders for Australian manufactured goods in October. This extended the sequence of new order contraction to nearly two years. The rate of reduction was sharp but slower than in September, whereas export orders declined at a more pronounced pace amid a lowering of demand from key export markets.

Lower new orders led to another sharp downturn in production, although the pace of decline eased from September. Additionally, Australian manufacturers cleared their volume of outstanding work at the fastest pace since data collection began for the survey in May 2016. The lowering of capacity pressures therefore led to employment levels falling for a fifth straight month and at the quickest pace since July.

Purchasing activity declined in tandem with the fall in new work inflows and production. The rate at which buying activity declined was steep and the most pronounced in nearly four-and-a-half-years. Slower replenishment of input materials further led to stocks of purchases declining at a substantial pace that was the steepest since April 2020. According to survey respondents, reluctance to hold additional raw materials and semi-finished items during a period of falling demand underpinned the downturn in purchases. Stocks of finished goods also shrank during October.

Meanwhile lead times continued to lengthen for Australian manufacturers at the start of the final quarter of the year. The rate at which lead times increased was sharp despite easing to its lowest in three months. Anecdotal evidence pointed to delays around the Red Sea region and Asia as the key sources of longer delivery times.

The extension of delivery times was accompanied by rising shipping costs, which alongside higher raw material prices resulted in another increase in average input prices. The rate of cost inflation eased from September, however, and was the lowest since January.

To reflect higher selling prices, Australian manufacturers raised selling prices again in October. The rate of output price inflation was below the series average despite climbing to the highest in five months.

Finally, business sentiment in the Australia manufacturing sector remained positive at the start of the fourth quarter of 2024. Confidence levels rose to the joint-highest since August 2023, matched only by the reading two months ago, as firms grew more hopeful that better economic conditions can support production the year ahead.

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"The final manufacturing PMI data for October shows an improvement in trading conditions towards the end of the month. However, trading conditions in the sector remain historically weak, with businesses continuing to gradually reduce headcount over the month.

"While still near last months' recessionary lows, the output and new orders indexes improved over the month, with final activity readings showing an improvement on the flash reading for October and the final readings for September. The improvement follows a significant fall in output readings over the past four months, suggesting that the worsening of conditions in the sector is no longer accelerating.

"Household stimulus and an expected improvement in disposable incomes don't appear to have translated to improved trading conditions for local manufacturers, contrasting with the ongoing resilience seen across the services economy. Export activity among manufacturers also remains subdued, with the New Export Orders index down below the neutral '50' level at a cyclical low comparable to the start of the pandemic.

"Australian manufacturers have been reducing headcount in aggregate over almost every month of 2024, with the employment index only above the neutral level in May this year. The labour shedding in the sector is contrast to elevated labour demand and ongoing labour shortages in the services sector, particularly healthcare and education.

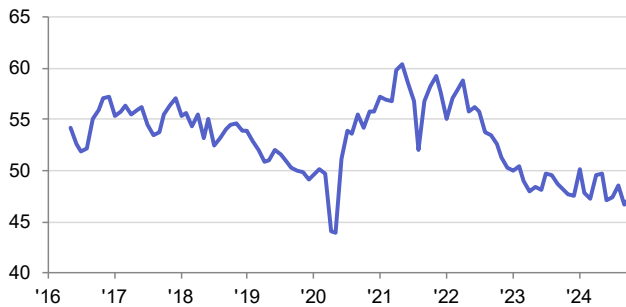
"Although demand remains weak, trading conditions seem to have improved due to reduced margin pressure throughout October. The output price index reached a five-month high this month – suggesting domestic goods price inflation is rising at or above the top of the RBA's 2% to 3% target band.

"The rise in the number of businesses increasing their output prices coincided with a decrease in input price pressures, bringing the index to its lowest level since January, which is comparable to pre-pandemic averages and indicative of better operating margins in 2024.

"The future activity index, which serves as a measure of business confidence, remains above the neutral level. This indicates that, on average, manufacturers continue to anticipate higher activity levels over the next 12 months. However, the proportion of optimistic manufacturers is at the lowest level since the survey began in 2016, despite having improved over the past three months from the cyclical lows observed between June and August."

Judo Bank Australia Manufacturing PMI

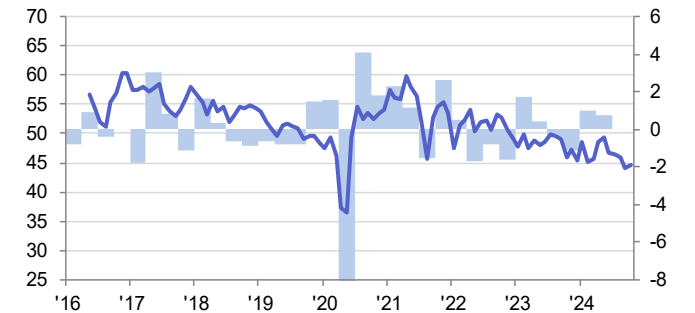
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 09-25 October 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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