

News Release

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Judo Bank Australia Manufacturing PMI[®]

Manufacturing sector expansion slows as demand weakens

Key findings

Output and new orders fall in December

Buying activity and input inventories decline

Input cost and output price inflation rates drop

The expansion of Australia's manufacturing sector slowed again at the end of 2022 with both demand and production contractions weighing on the headline PMI. In turn, input buying activity and holdings declined though employment levels continued to rise. Meanwhile price inflation eased even as supply delays persisted.

The headline seasonally adjusted S&P Global Australia Manufacturing Purchasing Manager's Index™ (PMI[®]) posted 50.2 in December, down from 51.3 in November. Posting above the 50.0 no-change mark, the PMI was consistent with a thirty-first consecutive month of improvement in overall operating conditions, albeit at a marginal rate.

Demand for Australian manufactured goods contracted in the final month of 2022, breaking a 15-month growth streak. Although modest, the decline nevertheless reflected pressure from deteriorating economic conditions and higher interest rates according to panellists. Foreign demand likewise came under pressure against a backdrop of a weaker global climate and with shipping issues negatively affecting new orders from abroad. As a result, manufacturing production similarly experienced a fall during December. Some manufacturers also linked the decline in output to supply and manpower constraints.

Indeed, lead times continued to lengthen in December and at a pace faster than November with supply chain and weather disruptions negatively affecting vendor performance. At the same time, manufacturing firms expanded their workforce capacity in response to ongoing production requirements but still faced issues of labour shortages according to anecdotal evidence.

Amid the pullback in demand, Australian manufacturers lowered their purchasing activity in December. This resulted in a reduction of pre-production inventories. On the other hand, the level of post-production inventories rose with an amalgamation of demand reduction and outbound shipping delays.

Price pressures also eased in December in line with weaker demand. Input price inflation fell markedly in the final month of the year, sliding below the series average. That said, higher raw material, labour and energy costs continued to encourage firms to share their cost burdens with their clients which resulted in higher selling prices. Overall output price inflation nevertheless also slowed in line with the weaker rise in input costs.

Finally, sentiment within the Australian manufacturing sector remained positive in December. Despite having improved from November, the level of business confidence remained subdued by historical standards. Hopes for better sales in the coming 12 months were partially offset by concerns over worsening global economic conditions and persistent cost pressures.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"Australia's manufacturing sector is slowing down in line with the global trend for weaker manufacturing activity over the second half of 2022, although Australia is holding up better than the US, Europe and Japan.

"The Australian manufacturing PMI is still in expansion with a December reading of 50.2. However, the output index fell into contraction, at 49.2, while new orders fell to 49.7.

"Australian manufacturers remain confident of better conditions ahead with the future output index at 66.6. A further slowdown in global and local economic activity is likely to be a headwind for the manufacturing sector in early 2023. This is consistent with a broader soft landing for the Australian economy over the year ahead.

"The domestic supply chain is getting back to normal over the second half of 2022 following almost two years of stresses and strains. Supplier delivery times have shortened since the middle of the year, while the backlog of work has fallen sharply over the past six months and is now below the 50 level for the first time in over two years.

"Supply chain price pressures have also eased considerably with further improvement in December. Input prices are growing at the slowest pace since December 2020 and are now back to pre-COVID levels. Output prices have also moderated, but to a lesser extent, suggesting some margin rebuild is holding up the pass through of softer input costs to final prices.

"Labour demand remains robust and continues to expand despite the overall weaker trend in activity for manufacturing. The employment index at 51.6 is the lowest in more than two years, and has gradually declined from the high point of 55.8 in early 2021.

"The latest PMI survey results are consistent with the RBA's policy changes in 2022 effectively re-balancing the economy without causing a sudden downturn in activity. Tighter monetary policy is slowing domestic activity and removing the excess demand for labour across the economy, without causing widespread job losses and higher unemployment."

Judo Bank Australia Manufacturing PMI

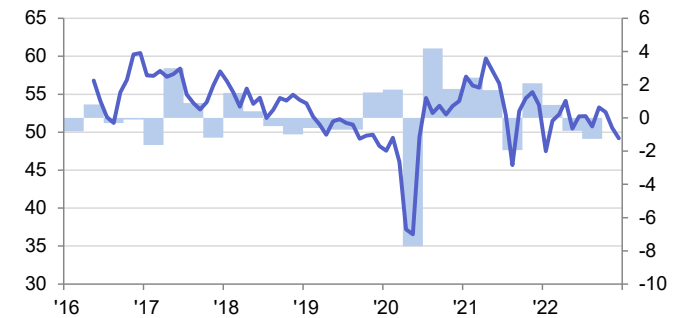
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.
Data were collected 5-19 December 2023.

Australia Manufacturing PMI Output Index

sa, >50 = growth since previous month



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).

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