

News Release

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Judo Bank Australia Manufacturing PMI[®]

Mild contraction of manufacturing sector signalled in March

Key findings

Fall in new orders leads to lower production in March

Vendor performance improves for the first time in survey history

Price pressures ease

The health of Australia's manufacturing sector deteriorated in March for the first time in nearly three years, albeit mildly, according to the latest PMI data. Lower demand led to a reduction in output and inventory levels, although hiring activity persisted. Supply constraints and price pressures also eased, while overall sentiment remained positive.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI[®]) posted 49.1 in March, down from 50.5 in February. Easing past the 50.0 neutral level, the PMI indicated the first contraction of the manufacturing sector since May 2020. The rate of contraction was marginal, however.

Softer underlying demand conditions and high inflation led in the sharpest fall in incoming new orders since August 2021 at the end of the first quarter. Likewise for foreign sales, a weaker global demand environment resulted in lower international orders in March. The fall in new exports was the sharpest in over a year.

In turn, the level of manufacturing production declined at the fastest pace since January 2022. Manufacturers were also able to clear their backlogged orders in March, working through their outstanding business at the fastest pace since May 2020.

Purchasing activity fell in response to incoming new orders, which also contributed to lower stocks of inputs in March. Anecdotal evidence further suggested that manufacturers were reluctant to over accumulate input materials in the current demand climate. For similar reasons stocks of finished goods were also reduced, the first decline in six months.

Meanwhile, firms continued to hire at a rate faster than the series average during March, largely in a bid to continue rebuilding their workforce capacities to pre-pandemic levels. Supply constraints also eased on the back of lower demand. Suppliers' delivery times shortened for the first time in the survey history (since May 2016), attributed to both better shipping performances and reduced instances of material shortages.

Price pressures also alleviated in March with rates of both input cost and output price inflation falling. Raw material and energy costs continued to climb, leading to higher overall input costs, but at the slowest pace since December 2020. Consequently, output price inflation weakened for the eighth straight month as firms passed on their increased cost burdens at a slower rate.

Finally, manufacturers retained an optimistic outlook for output over the next 12 months in March. The level of business confidence was amongst the weakest in the survey history as concerns over interest rates and the economic outlook persisted.

Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Manufacturing PMI fell back to cyclical lows in March after some tentative signs of stabilisation over the summer months. What is now clear is that Australian manufacturing activity continues to slowdown in 2023. The slowdown is gradual and consistent with a soft landing for the broader economy.

"There are some emerging concerns about the economic outlook. The future output index has fallen in each of the last two months. As a key measure of manufacturers confidence, we have seen this indicator fall from 68.1 in January to 63.6 in March. While the current reading remains well in positive territory, it is below the long-term average level of 74.4 and is the lowest reading we have seen since the initial COVID-19 lockdowns back in 2020.

"Supply chains appear to be functioning well across the Australian manufacturing sector with supplier delivery times, and the backlog of work and inventory levels are all near what should be considered normal levels. There are still problem areas in certain industries and products, but the overall picture is constructive.

"Price pressures continue to ease reflecting the normalisation of global supply chains, declining commodity prices and big falls in transport and logistics costs over the past six months. The input price index fell for the second consecutive month which maintains the downtrend evident since the peak in price pressure in late 2021.

"Lower input costs are translating into lower output (final) prices, although the pace of decline of the output price index has not matched the fall in the input price index over the last six months. This reflects an effort by Australian manufacturers to rebuild margins after two years of margin compression.

"Labour demand remains strong with Australian manufacturers overall looking to expand staffing levels. This reflects past labour shortages and reinforces the view that the slowdown in the Australian economy in 2023 is unlikely to be accompanied by a substantial rise in unemployment.

"The Manufacturing PMI survey is further evidence that the stresses and strains placed on the global manufacturing complex through the pandemic are now mostly a thing of the past. This is facilitating more normal business conditions and an easing of inflation pressures. This should continue to flow through to consumer goods prices in 2023 and play an important role in bringing overall inflation down in Australia."

Judo Bank Australia Manufacturing PMI

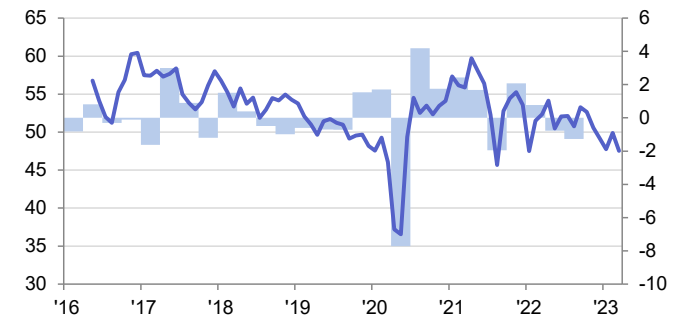
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.
Data were collected 9-27 March 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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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.