

# News Release

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## Judo Bank Australia Manufacturing PMI®

### New orders decline at faster rate in April

#### Key findings

Weak demand drives PMI to 35-month low

Survey-record shortening in suppliers' delivery times

Cost pressures running below pre-pandemic trend

The latest PMI® data from Judo Bank pointed to a deepening downturn in the Australian manufacturing sector, as new orders fell at one of the fastest rates in the seven-year survey history. This led to a further fall in output and reduced purchasing as firms sought to optimise inventory levels. Weaker demand for inputs and a record improvement in suppliers' delivery times due to recovering global supply chains fed through to prices, with the rate of input price inflation slowing sharply to below the pre-pandemic trend. Output price inflation also moderated.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI®) posted 48.0 in April, down from 49.1 in March. This signalled a second straight month-on-month deterioration in overall business conditions, the first back-to-back downturn in the sector since the start of the pandemic in March-May 2020.

Demand for Australian manufactured goods fell further in April. New orders declined for the fifth month running, and at the fastest rate since August 2021. Survey respondents commented on broad-based economic weakness, driven in part by high interest rates. There were also reports of subsequent financial pressures at customers, which also reflected high prices. This led to smaller orders and longer approval processes at clients. New export orders also contracted for the fifth month running, and at the fastest pace since August 2020. Panellists commented that global market demand remained subdued.

The ongoing deterioration in new order inflows was reflected in a fifth straight monthly contraction in output in April. That said, the rate of decline in production was only modest and eased since March. This was due to efforts by manufacturers to complete backlogged work, which fell for the fifth month running and at the third-fastest rate on record.

Weak inflows of new orders also influenced firms' purchasing decisions, resulting in a drop in the volume of inputs ordered by manufacturers for the seventh month running. Lower purchases were linked by firms to weak market conditions and efforts to reduce inventory levels. Stocks of inputs fell for the sixth time in the past eight months, and at the strongest rate since December 2020. Post-production inventories also declined, albeit at a weaker rate than input stocks.

Reduced demand for inputs and improving global supply chains resulted in a survey-record shortening of suppliers' delivery times in April. Prior to March, lead times had lengthened on average in every month since the survey began in May 2016.

Improving supply chains and weaker demand led to a cooling in price pressures in April. Input price inflation slowed notably to a 33-month low. The Input Prices Index was also below its pre-pandemic trend level. Output prices rose further, but at the slowest rate since December 2020.

Manufacturers remained confident of higher output over the next 12 months, but the level of sentiment eased for the third straight month to the weakest since April 2020. Confidence was undermined by high inflation, increased interest rates and weak demand, notably from the construction sector. Manufacturers continued to expand their workforces in April, albeit at the slowest rate in the current two-and-a-half year sequence of job creation.

#### Comment

Warren Hogan, Chief Economic Advisor at Judo Bank said:

"The Australian manufacturing PMI was weaker in April, confirming the downtrend that has been in place for over a year. New orders were the weakest component of the PMI in April indicative of further production weakness ahead. The manufacturing output index picked up a little in April but remains below 50 and is clearly in the midst of a cyclical slowdown.

"Australian manufacturing is being impacted by the global manufacturing slowdown, partly a reflection of the post pandemic drop in demand for consumer goods and partly a reflection of weaker global industrial production.

"Exports orders fell in the month and are the weakest they have been since mid-2020. This is a clear signal that the Australian manufacturers that are part of regional and global supply chains are increasingly feeling the impact of lacklustre world trade.

"Domestic goods demand is also on a softer path after the strength displayed through much of the pandemic years. Added to weaker demand for consumer goods in 2023 is a gradual slowdown in domestic construction activity, a key driver of the domestic manufacturing sector.

"We have had further confirmation of a normalisation of supply chains in April, evident since mid-2022. The backlog of work and supplier delivery times have largely returned to normal levels. Input prices have also declined sharply again in April.

"Despite a softening in demand, employment in the manufacturing sector remains resilient, with businesses continuing to expand workforces over April. This resilience as orders and price pressures slow provides further evidence that the Australian manufacturing sector is on track for a soft landing. It is safe to say that the pandemic economic shock, largely a result of a surge of demand for goods across the world economy in 2020 and 2021, is now a thing of the past.

"What is less clear is whether the slowdown in the highly cyclical manufacturing sector will result in a soft landing for the broader economy. We are seeing no signs of economic recession in recent PMI results although elevated interest rates and intense pressures on household budgets are likely to result in a further slowdown in activity over the second half of 2023.

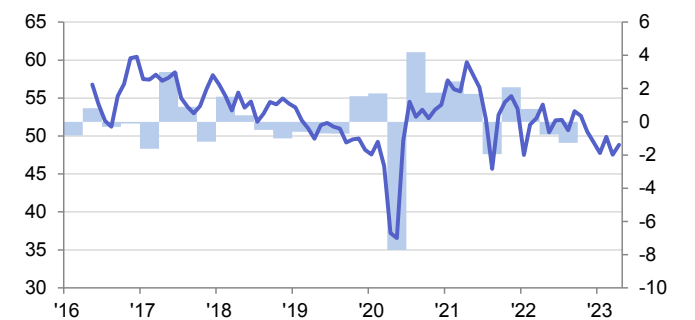
"The fate of the broader economy is now, more than ever, going to be determined by what happens across the service sector. Inflation pressures have transitioned from the manufacturing sector and are now a domestic services story. And after two years of extraordinarily strong goods consumption, it should be no surprise to see this weakening trend. To generate a broader economic soft landing that assists in bringing down inflation, spending on services will also need to slow down."

**Judo Bank Australia Manufacturing PMI**  
sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global.  
Data were collected 5-24 April 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](mailto: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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