

News Release

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Judo Bank Australia Manufacturing PMI® Manufacturing sector downturn extends to ten months

Key findings

Sharpest fall in manufacturing output since May 2020

Employment levels fall at quicker pace in December

Higher rates of input cost and output price inflation

Australia's manufacturing sector remained in a downturn at the end of 2023, according to the latest PMI® data from Judo Bank. Demand conditions, both at home and abroad, continued to deteriorate, leading to a sharper decline in output. Purchasing activity, input inventory holdings and employment levels fell in tandem with the scaling back of production. Concurrently, supply-side pressures were sustained, leading to an extension of lead times and a slight increase in inflationary pressures. Nonetheless, sentiment about the year ahead end improved in December.

The headline seasonally adjusted Judo Bank Australia Manufacturing Purchasing Manager's Index™ (PMI) posted 47.6 in December, down from 47.7 in November. The latest reading signalled a tenth monthly deterioration in manufacturing sector conditions and at the quickest pace since May 2020.

Central to the latest downturn in Australian manufacturing sector conditions was a further deterioration in demand. Incoming new orders for Australian manufactured goods fell for a thirteenth straight month in December on the back of soft economic conditions and pressure from high interest rates. Foreign demand was likewise subdued. That said, both the rates at which new orders and export orders contracted eased from November.

Reduced new work intakes nevertheless led to production contracting in December. Outside of the height of the pandemic period in the first half of 2020, the pace at which manufacturing output fell was the fastest since data collection began for the survey in May 2016. Firms were also able to work through their backlogs, leading to a more pronounced depletion of outstanding orders in December.

The development of excess capacity thereby led to a further reduction in manufacturing sector headcounts in December. Although modest, the pace at which employment levels fell was the sharpest since August 2020. Redundancies and the non-replacement of leavers contributed to the latest reduction in staffing levels according to panellists.

A fifteenth monthly decline in purchasing activity was also recorded in December as manufacturers lowered their input purchases in line with new orders and production trends. In turn, stocks of purchases also fell. Anecdotal evidence suggested that destocking efforts and caution with respect to holding additional input items in a period of deteriorating demand further contributed to the latest depletion of pre-production inventories.

On the other hand, stocks of finished goods rose for the first time since February on the back of lower sales and outbound shipment delays. Indeed, vendor performance deteriorated again in the latest survey period amid reports of supply and transportation constraints.

Price pressures meanwhile intensified in the final month of 2023. Rising raw material and fuel costs led to average input prices increasing at a faster rate in December. Consequent of higher cost burdens, Australian manufacturers raised selling prices at a quicker pace to cover costs. Both the rates of input cost and output price inflation remained below their respective series average, however.

Finally, overall sentiment in the Australian manufacturing sector remained positive through to the end of the year. Although still below-average, the level of business confidence rose to a three-month high in December as firms remained hopeful that sales can rise in 2024.

Comment

Matthew De Pasquale, Economist at Judo Bank said:

"The December Manufacturing PMI report confirms the Flash PMI report findings earlier this month. Manufacturing sector activity is easing, and the current index levels suggest the industry is on track for a soft landing.

"In December, the manufacturing output index returned to a historically low reading of 45.5 after showing signs of improvement through November. The current reading is the lowest level seen since May 2020. The new orders index, which also resides at a low level by historical standards, saw notable improvement through December.

"It's important to remember that monthly activity changes can be unpredictable. We'll closely monitor these key activity indexes throughout the new year to see if the rate of slowdown in activity increases amid prolonged higher interest rates. If the readings remain at current levels through early 2024, we anticipate the industry will continue on track for a soft landing, with only a gradual decrease in activity.

"Despite output levels and new orders reflecting an easing in activity, labour demand has only weakened slightly, with the employment index sitting slightly under the neutral level at 48.4 in December.

"While not overly significant yet, consistent sub-neutral level readings for the employment index over the past two months suggest that a slowdown in labour demand for the manufacturing sector is underway. The current employment index level is the lowest reading since mid-2020, and suggests a slight easing in employment levels relative to the prior month.

"With activity having softened more significantly in the manufacturing sector through 2023, the price indicators have softened to levels broadly consistent with a 2-3% inflation rate. Both input and output price indexes ticked up slightly through December, but each index remains more or less aligned with their pre-pandemic averages.

"The future output index, a measure of business confidence, improved in December after consistently declining from August and hitting a cyclical low point in November. On average, businesses still expect increased activity over the next 12 months. However, compared to historical standards, the number of manufacturing businesses holding this opinion is relatively low.

"The manufacturing sector has shown a consistent easing trend throughout 2023, responding well to monetary policy, with inflation aligned with the target levels set by the RBA. The sector's activity is gradually slowing down, and we expect this trend to continue through early 2024."

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Judo Bank, S&P Global PMI.
Data were collected 05-18 December 2023.

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.

Manufacturing production

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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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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html